Ubiquity Consulting Ltd

NEWS LETTER

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VAT COLLECTIONS UP BY 16% AFTER PETROL LEVY BOOST

Value Added Tax (VAT) collections increased at the fastest pace in the first five months of the financial year compared to other tax categories indicating that the levy on petroleum that was effected in September is having a boost on the Treasury's coffers. Kenya Revenue Authority (KRA) netted KShs165.2 billion from VAT between July and November 2018, the first five months of the current financial year that ends in June. This marked a growth of KShs23.2 billion which is equivalent to 16.6% compared with KShs.41.63 billion recorded in the same period a year earlier.

RELIEF AS PRICE OF DIESEL DROPS TO 13-MONTH LOW

The Energy Regulatory Commission has cut the price of diesel to 13-month low offering hope for lower transport and machines operations costs. A litre of diesel in Nairobi is set to retail at a maximum of KShs.95.96 following a KShs.6.28 cut.

This price was last seen in January last year when it retailed at KShs.94.82. the ERC also slashed the price of super petrol by KShs.4.12 per litre meaning that the maximum price will now cost KShs.100.09. the two fuel will be retailing at prices below those before the increase witnessed in September last year after the VAT introduction.

FIRMS CITE VAT FORMULA FOR RISE IN LOAN DEFAULTS

Manufacturers have blamed change in the formula applied in calculating VAT refunds for cash flow challenges resulting in piling loan defaults. The taxman in September 2017 enforced the formula meant to ensure traders only claim refunds for zero-rated supplies as part of the VAT regulations published by Treasury Cabinet Secretary earlier in April that year. The KRA as a result uses the ratio of zero-rated supplies to the total taxable sales revenue to arrive at refunds as opposed to the previous system where it was based on difference between output and input tax.

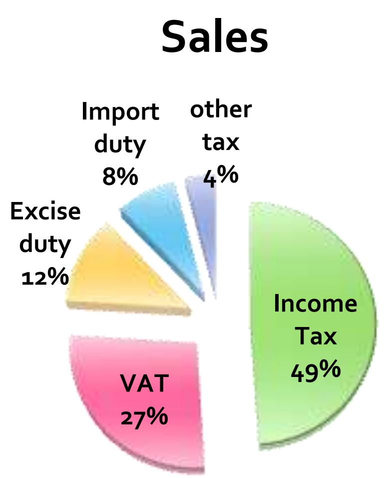
KRA WOOS WORKERS WITH TWO-STEP TAX RETURN FILING PLAN

Employees filing tax returns this year will only have to fill in data on pension and annual relief as the taxman moves to ease the process and boost compliance ahead of the June 30 deadline. KRA has configured iTax (the online tax filing system) to automatically capture the data of employers who submit PAYE tax. KRA has enhanced iTax to have an auto-populated return of employment income making it much easier, smoother and faster for employees whose only source of income is the employment.

Taxpayers who will miss the June 30 deadline for filing returns face a penalty of KShs.2000 for individuals and KShs.10, 000 or 5% of the tax due for other entities under the tax procedure Act 2015. The law requires all individuals with KRA Pin to file annual returns between January and June, with those with no source of income such as students required to file NIL returns. In the year ended June 2018, the taxman collected nearly Kshs.180.37 billion from PAYE which is deducted from employee's monthly salary, 14.03% growth over KShs.158.17 billion a year earlier.

KRA REVENUE COLLECTION SHORTFALL HITS KSHS.185 BILLION

Kenya's cumulative revenue collection shortfall hit KShs.185 billion in the three years to June 2018, throwing the National Treasury into a fix. The treasury secretary had initially set a target of nearly KShs.4.19 trillion for the KRA in the period, but that fell short by KShs.184.8 billion largely due to shocks in the economy and inefficiencies in the tax administration system. Collection in tax and levies- Railway development levy and road maintenance levy missed the KShs.1.213 trillion targets for the year ended June 2016 by KShs.12.4 billion.



KRA KEY PERFORMANCE INDICATORS TARGETS VS ACHIEVED RESULTS

	2015-16		2016-17		2017-18	
	Target	Achieved	Target	Achieved	Target	Achieved
VAT/GDP ratio	5	4.5	6	4.5	9	4.21
Weighted compliance	65	59	65	59	65	65
Customer satisfaction rate	7	N/A	75	71.9	80	71.9
Electronic customer service	56.25	58	67	61	100	83

NSE CHALKS UP KSHS.149 BILLION IN JANUARY

Nairobi securities exchange investors closed January with a paper gain of KShs.148.69 billion as the three key market indices shrugged off a terror attack. Market capitalization, a measure of the value of listed shares closed the month at KShs.2.25 trillion up from KShs.2.1 trillion at the end of 2018 offering hope to investors whose value of shares fell by KShs.419 billion last year. The current value is a four month high since September 19 last year. The NSE 20 gained 124.52 points to close at 2958.36 while NSE 25 gained 321.5 points to close the month at 3873.09.

NSE EXTENDS TRADING SUSPENSION OF BROKE ARM CEMENT

ARM cement's share will remain locked out of trading at the NSE until mid-August after the market regulator extended its suspension by 6 months from yesterday (13th February). The NSE in a notice said the Capital markets Authority has opted to extend the suspension in view of the ongoing turnaround efforts led by administrators from PwC. ARM last traded at 5.5 per share a sharp decline from a peak of KShs.90 reached in August 2014.

SHARES AGENCY TO FREEZE IDLE NSE ACCOUNTS

Nairobi Security Exchange (NSE) share accounts that have been inactive for the last two years will be frozen by the end of today in a bid to protect investors against fraud. The custodian of the accounts, Central Depository and settlement Corporation Ltd (CDSC) announced on 27th February the accounts will be declared dormant and therefore unable to transact unless reactivated. The declaration of dormancy is intended to safeguard investor's holdings in CDSC accounts. This means no transaction will be effected on any account declared dormant unless the owner apply for reactivation in line with the CDSC Accounts Dormancy rules and procedures effected in May last year.

FOREIGN INVESTORS STAKE NSE HITS A 7-YEAR LOW

Foreign investors turned net sellers for all the 12 months of trading in 2018 doubling their sell-offs and cutting stake at the NSE to levels last 7 years ago. Capital Market Authority data covering up to December 2018 show foreign investor's net sell-off hit KShs.22.96 billion nearly double from KShs.11.58 billion in 2017. The annual net foreign portfolio flow 2018 was an outflow of KShs.22.96 billion compared to a net outflow of KShs.1.58 billion in 2017 majorly attributed to foreign investor flight from the local Capital markets.

TREASURY TARGETS KSHS.50 BILLION IN BONDS

The Treasury is seeking KShs.50 billion this month through bond issues, hoping to ride on the huge investor interest in last month's auction and a liquid money market. CBK in a bond prospectus published on 7th July said the bond would be issued in two tranches of 5-year and 10-year tenors, with the shorter paper likely to excite investors who have been clamoring for short papers in recent months. Last month the Treasury was in the market for KShs.40 billion in a 2-year and 15-year bond issue, which received total bids of KShs.101.97 billion with acceptances of KShs.38.5 billion. The Treasury re-opened the paper for a four-day sale on January 31 with a target of KShs.12 billion. The sale attracted bids of KShs.66 billion with just KShs.23.4 billion accepted.

TREASURY PLANS TO SPEED-UP SMEs BANK-LOAN GUARANTEE POLICY

The Treasury has said it will speed up a new scheme aimed at unlocking credit to small and medium-sized enterprises (SMEs). The National Treasury in May last year said it would guarantee commercial banks loans to SMEs as part of an effort to reduce the risk profile, keep loan prices low and to ease access to credit. In view of this the government will finalize the policy on credit guarantee scheme to provide a framework to guide structured implementation and development of a vibrant credit guarantee scheme that embraces a public-private partnership.

INVESTORS T-BILL PROFIT LOWEST IN OVER 5 YEARS

Interest on short term treasuries has dipped to nearly five-and-a-half-year low on high liquidity reducing the debt repayment but hitting investors hard. Average yield on 3-month Treasury bills fell by 6.96% last week the lowest return investors-banks, insurers and pension funds will have earned for lending cash to the government since July 29, 2013 when they averaged 6.29%. CBK (government's fiscal agent) sold six-month and one-year T-bill for an average of 8.38% and 9.49% to investors respectively marking the lowest interest since late July 2013.

5-YEAR BOND INTEREST DECLINES

The weighted average yield on the 5-year paper fell one percentage point as that on 10-year Treasury bond dipped slightly at the auction last Wednesday with the CBK raising just over half of the amount it offered investors. The yield on 5-year paper fell to 11.378% compared with 12.394% at previous primary sale in March last year while that for 10-year bond dipped marginally to 12.463% from 12.580% at the last sale in December. According to CBK, the government received bids worth KShs.41.93 billion out of the KShs.50 billion it offered for five-year bond, a sign tightening liquidity a week after banks were to meet statutory cash reserve ratios and tax obligations for corporate.

BOURSE SEES GOOD SALES FOR M-AKIBA

Nairobi Securities Exchange (NSE) expects the re-opened KShs250 million mobile traded M-Akiba bond to offer strong competition to the 364-day Treasury bill and 2-year bond. The NSE chief executive on Monday (25th February) said the 10% tax free infrastructure bond set to mature in the next 18 months offers a return above what the government has accepted from papers below 2-years making it attractive to investors. Last week's 364-day paper that closed last week accepted bids at weighted average of 9.49% while that of 2-year bond was 10.7%. Both returns are potentially below that of M-Akiba when eventually subjected to Tax.

CBK LEAVES BILLIONS ON THE TABLE AFTER HUGE T-BILL OVERSUBSCRIPTION

Latest T-bill auction was oversubscribed by nearly KShs.16 billion after Central Bank of Kenya offered only KShs.24 billion worth. Investors put in KShs.40.2 billion but the CBK took up KShs.32.34 billion which was more than it had initially offered to the market for the auction. The oversubscription was driven by the 364-day paper that attracted huge demand. The market is still flash with cash after the CBK recently rejected KShs.63 billion after floating 2-and 15-year bonds and only took up KShs.38 billion. The regulator was at an advantage and even gave rates for the three tenors 31-, 182- and 364-day paper lower than those of the previous week.

CBK RULES SET THE STAGE FOR MASS MORTGAGE FINANCIER

CBK has published draft regulations for mortgage refinance companies setting the stage for creation of a state-backed firm that will advance cash to banks for on-lending to home buyers. Through CBK(mortgage refinance companies) regulations 2019, the regulator wants non-deposit taking firms to be established under the companies act and licensed by the CBK to conduct mortgage refinance business. Refinance firms are being fashioned as implementation vehicles for meeting Kenya's affordable housing plan targeting 500, 000 decent, affordable housing units by 2022. The Finance act 2018 amended CBK Act and empowered CBK to start licensing, regulations and supervision of the mortgage refinance businesses.

CBK EXPECTED TO MAINTAIN CAUTIOUS MONETARY STANCE

The CBK has been tipped to retain a cautious monetary policy stance even as falling inflation, a stronger shilling and low interest rates present conditions conducive to monetary easing. Analysts at Commercial Bank of Africa say its monthly economic report for February that the prevailing low growth in private sector credit, partly attributed to the rate cap on loans will moderate any urge by the regulator to cut the benchmark rate. Favorable weather has cut the price of food, helping keep inflation within the CBK preferred range of 2.5% to 7.5%. Lower oil prices have also helped ease the cost of living with pump prices coming down by between KShs.13.50 (petrol) and KShs.16.50 (diesel) a litre in the past two months.

KENYANS STASH MORE FOREX IN BANKS

Foreign currency deposits held by Kenyans in local banks rose 18.6% to KShs.569.6 billion by end of November 2018 compared to KShs.480.3 billion in the same period last year. latest CBK data on money supply in the economy shows the deposit have held above the KShs.500 billion mark since May, touching an all-time high of KShs.580.8 billion in June 2018. Kenyans living abroad sent home KShs.270 billion last year, up from KShs.195 billion in 2017, while income from other Forex sources such as horticulture and tourism rose significantly well.

BANKS PAY SAVERS LOWEST INTEREST RATES IN 15 MONTHS

Banks have slashed interest for customer savings to an average of 5.7% which is the lowest in 15 months following the removal of the floor interest rate last year. latest data from Kenya National Bureau of Statistics (KNBS) shows the rates declining month-on-month up to October after the high of 7.01% seen in February last year leading to narrower margins to savers. Last august, the National Assembly voted to tweak the banking Act, 2016 and removed a clause compelling banks to pay depositors at least 70% of the Central Bank of Kenya (CBK) base rate. The CBK data shows that private sector credit grew by 2.4% in the 12 months to December 2018 compared to 3% in November. Genghis capital analysts say the amendment of the law has failed to offer motivation for banks to lend more as may have been anticipated by parliament.

DOMESTIC DEBT REFINANCING RISKS INCREASE ON MATURITIES

Kenya's government faces increased refinancing or roll over risks as more domestic bonds mature within the next year than in 2018 according to the National Treasury. The International Monetary Fund (IMF) bumped up the East African nation's debt distress risk to moderate from low last October, citing rising external borrowing and growing interest payments on public debt. The maturing of domestic debt is due to shorten with 43% of the debt maturing in less than a year up from 38% the previous year.

The 2019 local debt maturities account for $10.37 billion out of the total outstanding local debt of $24.21 billion. Kenya's domestic debt stands at 24.7% of gross domestic product roughly half of the total public debt of 50.3% of annual economic output with the balance being made up from external financing from creditors such as the World Bank and commercial lenders.

CAPITAL MARKETS REGULATOR VOWS TO STOP INSIDER TRADERS

The Capital Markets Authority said it will focus on cheats at the Nairobi Securities Exchange (NSE) to strengthen the reputation of the country's securities market and enhance accountability by participants. On Tuesday 19th February, CMA fined David Maena of CBA Capital a total of KShs.166.9 million after finding him guilty of dealing with privileged (Non-public) information on bond trades which he used to front-run the market and make dual trades to profit at the expense of other investors. Insider trading robs investors who do not have non-public information of receiving the full value for their securities.

CMA LOCKS CRYPTOCURRENCIES OUT OF INNOVATION HUB

Crypto currency developers have been locked out of a Capital Market Authority (CMA) Fintech incubating platform set for official launch in May, which at least 70 firms have expressed interest in joining. CMA chief executive officer said the regulator has concluded the public exposure phase of the regulations governing the platform regulatory sandbox and will in April issue the final policy guidance note to anchor the regulations in law before going live in May.

The CMA and CBK have gone on record warning Kenyans against trading in crypto currencies saying they have no regulatory oversight and therefore in case of losses investors would have no recourse. CMA on Sunday 24th February emphasized that such unregulated technologies potentially bring up new prudential risks that can destabilize the market and put off retail investors for many years if not properly managed.

EARNINGS FROM HORTICULTURE HIT KSHS.153 BILLION

Horticultures earnings hit KShs.153 billion last year making it the third foreign exchange earner after Diaspora remittance KShs.272 billion and tourism KShs.157 billion. The earnings in the review period grew by 33% from KShs.115 billion in the previous year on account of high demand and good international prices. Flowers made the bulk of the earnings, bringing in KShs.113 billion with vegetables at KShs.27 billion and fruits raking in KShs.12 billion.

KENYA LIFTS CHINA FISH BAN TO BOOST SUPPLY

The Department of Fisheries has lifted a ban on fish imports following a biting shortage after the president directive against Chinese catch that had flooded the market. The ban was lifted in January barely three months after the restrictions took effect in November. The President, in ordering the ban, had said it was inappropriate to bring in the fish when local sources could well satisfy the demand. Kenya imports approximately 1.8 million KG of fish every month. It produces about 135, 000 tonnes annual demand of 500, 000 tonnes. Fish import from china hit KShs.1.7 billion last year as Kenya's appetite for Chinese fish continued to grow with the country seeking to bridge a deficit.

AFRICAN COFFEE TO DOMINATE GLOBAL SUPPLY

African coffee products could dominate the global market in the next five years as some countries have expanded coffee acreage and raised quality of coffee produce. Production of coffee in Africa could rise by more than 2 million bags in each of the next 5 years as farming improves in most-coffee growing countries like Ethiopia, Cote d'Ivoire, Uganda, Kenya, Rwanda and Tanzania. Africa has huge opportunity to dominate global coffee market in the near future as coffee consumptions surges around the world.

CHINA TOP CREDITOR AFTER KENYA BOOKS KSHS.70 BILLION NEW LOAN

Kenya contracted $704.99 million fresh loans from china in 3 months to December helping Beijing to regain its position from World Bank group as the single largest creditor. Latest Treasury data shows the stock of debt from China hit $6.2 billion as at end of last year from $5.50 billion in September consolidating the East Asian country's influence on Nairobi's infrastructure projects. Gross public debt crossed KShs.5.27 trillion last year; the Treasury data further show a 15.27% equivalent to KShs.698.36 billion growth over a year earlier.

KENYAN ECONOMIC OUTLOOK

SHILLING HITS 6-MONTH HIGH TO DOLLAR

The shilling has strengthened to a 6-month high supported by strong dollar inflows from buyers of treasury bonds and remittances by Kenyans in the Diaspora. The Kenyan currency closed at a high of 100.39 units to the dollar in Friday's foreign exchange market trading. Reuters live trade data showed the shilling strengthening for the better part of Friday touching 100.31 at 3p.m before weakening slightly to 100.39 units as the day drew to a close.

SHILLING GAINS MARGINALLY ON RISING FOREIGN EXCHANGE RESERVES

The Kenya shilling slightly strengthened beginning of the week compared to closing Friday days after foreign exchange reserves increased. The CBK showed the shilling traded at an average of 100.15 units to the dollar on Monday while Reuter's data showed it at 100.30 on 5th of February. Forex reserves rose by $60 million last week to stand at $8.136 billion. The unit had closed at 100.31 to the greenback on 1st February. The new level of reserves represents 5.33 months of import cover compared to the previous week's $8.076 billion which is equivalent to 5.29 months of similar cover.

NEW EXPORT ORDERS FASTEST IN FOUR MONTHS

New export orders from Kenyan businesses rose the fastest in 4 months on higher foreign demand shrugging off the slow start common with January. Kenya purchasing managers index covering January shows that increased demand saw businesses clear backlogs at the fastest rate in 14 months. New export orders increased at the sharpest rate since October, with many businesses reporting higher foreign demand. Business activity in Kenyan companies continued to rise sharply with the rate of output growth ticking up to a three month high.

IMPORT-EXPORT DEFICIT NARROWS TO 11-YEARS LOW

The current account deficit (gap between imports and exports) fell to the lowest level in 11 years due to rising exports and remittances. According to preliminary data on balance of payments shows continued reduction of the current account to 4.9% of GDP in 2018 from 6.3% in 2017. The CBK said in its latest weekly bulletin that other factor pushing the deficit down to 4.9% of the gross domestic product GDP were an increase in tourism receipts and a decline in food imports. The deficit was previously lowest in 2007 when it hit 3.8% of the GDP but has since been above that level as the amount of imports increased and exports rose at a slow pace.

PUBLIC DEBT INCREASES IN 6 MONTHS

Kenya's public debt increased by KShs.233.5 billion between July and December last year hitting a total of KShs.5.273 trillion up from KShs.5.039 trillion six months earlier. Latest debt data published by central Bank of Kenya shows external loans went up by Kshs.163.5 billion in the period significantly outpacing the KShs70 billion increases in domestic debt. The government plans to have borrowed a net of KShs.321.5 billion from external lenders by the end of the current financial year ending June. The net debt raised so far is mainly from the non-commercial project lenders many of who have existing signed agreement for debt that is only awaiting draw-down at the start of projects.

FOREX RESERVES REBOUND TO KSHS.825 BILLION ON STRONG SHILLING

Foreign exchange reserves held at the Central Bank of Kenya have risen to KShs.23 billion since the beginning of the year as the stronger shilling allows the regulator to bulk up reserves at a time of high dollar inflows. Latest data published in its weekly bulletin shows that the reserve s are now at a near four-month high of KShs.824.8 billion having risen from KShs.801.7 billion at the beginning of the year. For better part of last year the reserves were on a downward trend. In the past week alone the reserve rose by KShs.9.6 billion.

TREASURY BILLS GET 198% SUBSCRIPTION

Treasury bills subscription continued to exceed government's demand last week with the CBK receiving KShs.47.58 billion against Kshs.24 billion sought, translating to a performance rate of 198.26%. CBK out of all the bids received accepted just KShs.28.92 billion. This was the highest subscription in four weekly auctions according to Genghis capital records. The 364-day tenor remains the most appealing tenor on a risk-adjusted basis and has also been bolstered by excess market liquidity. The Treasury was seeking KShs4 billion from 91-day tenor and KShs10 billion each from 182- and 364-day papers. Only the 91-day paper was under-subscribed receiving KShs3.34 billion while the demand for 182- and 364-day papers hit 149.27% and 293.19%.

INTERBANK RATE DOWN TO AN 8-YEAR LOW

The rate at which banks lend each other has fallen to an eight-year low as shilling liquidity in the market remains high leading to over-subscription in the government securities auctions. Latest CBK data shows the rate interbank rate used for emergency borrowing fell to 1.41% on Tuesday the, lowest level seen since the beginning of March 2011. The lowest recent rate was 1.7% recorded mid-last month.

JANUARY DIASPORA INFLOWS INCREASE ON FEES PAYMENT

Diaspora remittance rose by 17.22% in the first month of the year compared to 2018 according to fresh official statistics released on 19th February 2019. The January inflow hit $245 million compared with $209 million last year according to CBK data. The monthly Diaspora remittance were the third highest in history after May ($254 million) and June 2018 ($266 million) when the inflows were largely thought to have been driven by a tax pardon for assets stashed abroad.

GLOBAL ECONOMIC OUTLOOK

US SANCTIONS: IRAN BUYS INDIAN SUGAR

Indian traders will export raw sugar to Iran for March and April delivery according to five trade sources. The first Indian sugar sales to Tehran in at least five years as Iran struggles to secure food supplies under sanctions imposed by the United States. Under the sanctions, Iran is blocked from the global financial system including using US dollars to transact its oil sales. Iran agreed to sell oil to India in exchange for rupees but it can only use those rupees to buy Indian goods, mainly items it cannot produce domestically. Trading houses has contracted to export 150, 000 tonnes of raw sugar for shipments arriving in March and April at $305 to $310 per tonne on a free-on-board basis.

YUAN AT 7 MONTH HIGH, AUSSIE GAINS

China's Yuan touched a seven-month high and commodity-linked currencies like the Australian and New Zealand dollars gained after US president Donald Trump confirmed he would delay a planned hike in tariffs on Chinese imports. Trump said on Sunday (24th February) that he would push back the March 1 deadline as talks between Washington and Beijing to end their months-long trade war made. The offshore Yuan rose to as high as 6.6737 per dollar and was up 0.1% at 6.6972 by 0805GMT. The Australian dollar seen as a proxy for China risk because of Australia's dependence on Chinese demand for exports rose 0.4% to $0.7160. New Zealand dollar firmed 0.4% to $0.6868

EU STOCKS FALL AS INVESTORS DECLINE IN EARNINGS

European stocks faltered on Friday after their worst day in 6 weeks as downgrades to growth forecasts weighted while weak numbers from Umicore, Skanska and Rockwool outweighed a sales beat from L'Oreal. The pan-European STOXX 600 hovered flat by 0825 GMT in line with the DAX, while the FTSE 100 and CAC 40 managed to inch up 0.2%. French cosmetic giant L'Oreal said strong demand for luxury skin creams helped it beat fourth-quarter sales forecasts another company reporting better-than-feared demand from China after LVMH last week. Its shares rose 1.2% in early deals before giving back gains to trade up just 0.4%.

GERMANY FOREIGN TRADE HITS FRESH RECORD IN 2018

The volume of Germany's foreign trade hit a record in 2018 underlining how exposed Europe's largest is to a global trading system that is under threat from protectionism and the threat of a trade war. The annual figures shows that Germany had exported 1.3 trillion Euro's worth of goods and imported 1.1 trillion Euros exceeding previous record set in 2017.Seasonally adjusted exports rose 1.5% month-on-month up from a 0.4% fall in the previous month and confounding forecasts of 0.2% growth. Imports rose by 1.2% compared to a 1.6% decline in the previous month. This means the trade surplus widened to 19.4 billion Euros from 18.4 billion Euros the month before.

FED RATE HIKES TO RAISE CREDIT COST

Hikes in Federal Reserve interest rate benchmark and pressure on the shilling may see Kenya borrow expensively to finance relatively cheap debt. Senior research economist at CBA said the fact that US interest rates have cumulatively gone up by 200 basis points in the recent past means the cost for future borrowing is also set to rise. Kenya's $750 million Eurobond priced at 5.875% matures in June which puts pressure on National Treasury to get a loan to finance operations as well as pay off maturing obligations.

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