

TALKING NOTES FOR THE PRINCIPAL SECRETARY / NATIONAL TREASURY, JULIUS MUIA, PHD, EBS, DURING THE LAUNCH OF THE 20TH EDITION OF THE KENYA ECONOMIC UPDATE BY THE WORLD BANK, IN OCTOBER 31, 2019 AT RADISON BLU HOTEL, NAIROBI

1. I am pleased to join you this morning for the launch of the 20th **edition of the Kenya Economic Update, whose theme is Incentivising Private Sector-Led Growth with a Special Focus on “Accelerating Kenya’s Digital Economy.”**

2. The 20th edition of the **KEU** is divided into two parts: i) Recent performance of the Kenyan Economy; and ii) Recent developments in Kenya’s digital economy. Allow me to highlight some of the recent developments in our economy.

I. Recent Performance of the Kenyan Economy

3. Kenya continues to register macroeconomic stability following implementation of prudent monetary and fiscal policies which has informed robust economic growth. In 2018, our economy recovered to grow by 6.3 percent from 4.9 percent recorded in 2017.

4. In 2019, the economy has remained resilient and grew by an average of 5.6 percent in the first two quarters compared to a growth of 6.5 percent in a similar period in 2018. This growth was mostly supported by growth in the service sector industries such as information and communication, transportation, construction, accommodation and food services, financial and insurance activities.

5. Growth in the first half of 2019 was characterized by a slowdown in agricultural activities. However, non-agricultural activities (Service & Industry) remained resilient and grew by 6 percent.

6. The economy is projected to grow by 5.7 percent in 2019, 0.1 percentage points lower than the **KEU** forecast of 5.8 percent, supported by a stable macroeconomic

environment, investment in the “Big Four” Plan, improved business and consumer confidence.

7. Kenya’s business environment continues to improve and is ranked 3rd in Africa and 56th globally, having moved up five places in the latest ranking by the World Bank’s doing business report 2020.

8. Over the last six months, the manufacturing Purchasing Manager’s Index has been above 50 except in April signalling solid improvement in private sector activities.

9. Macroeconomic stability has been preserved with inflation remaining within target, specifically 3.8 percent in September 2019. Interest rates remain low while the Kenya shilling is among the most stable in the region.

10. Risks to this macro outlook from the global environment relate to increased volatility in the global financial markets due to tensions between the U.S. and China, the slower growth of the Chinese economy, uncertainties over the nature and timing of Brexit and the pace of normalization of monetary policy in the advanced economies.

11. Domestically, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and the erratic weather related shocks that could have negative impact on energy generation and agricultural output leading to higher inflation that could slow down growth.

12. We continue to monitor these risks, both domestic and external, and will take appropriate monetary and fiscal policy measures to preserve macroeconomic stability and strengthen resilience in the economy.

13. **On the fiscal side**, revenue shortfalls and expenditure pressures have hindered the fiscal consolidation path. The fiscal deficit as a share of GDP declined from 9.1 percent in FY 2016/17 to 7.4 percent in FY 2017/18 before rising marginally to 7.7 percent in FY 2018/19.

14. Recent revenue mobilization efforts are paying off. Preliminary returns for the first quarter of FY 2019/20 show strong growth in revenues. In this regard, we project a return to the fiscal consolidation path with the fiscal deficit (Percent of GDP) projected at 6.2 percent in FY 2019/20 and 3.4 percent over the medium term.

15. Fiscal policy over the medium-term aims at enhancing revenue mobilisation and further strengthening fiscal consolidation so as to reduce budget deficit and strengthen debt sustainability while supporting economic growth. The fiscal consolidation will benefit from the revenue mobilization being undertaken by the Kenya Revenue Authority, the revenue policy measures in the budget and complemented by expenditure rationalization to reduce non-core expenditure items from the budget.

16. In particular, we must identify innovative ways to increase tax compliance, particularly of the informal sector, broaden tax base, and reduce revenue loss through undervaluation and mis-declarations.

17. Kenya has made significant progress towards tax modernization and revenue administration reforms in order to broaden the tax base and improve revenue administration.

18. We are finalizing the review of the Income Tax Act in order to simplify and modernize it with a view of enhancing revenue collection.

19. On public expenditure management, we have continued to institute and strictly enforce, the following measures, among others:

- a. Rationalization of public expenditures to identify and remove expenditure overlaps and waste;
- b. Entrench program budget and enforce performance benchmarks for execution of the development budget of at least 80 percent by all MDAs;

- c. Make fully operational the Integrated Financial Information Management System (IFMIS) as an end-to-end transaction platform in all MDAs and County Governments, and
- d. Operationalize the Procure-to-Pay module in all MDAs.

II. Accelerating Kenya's Digital Economy

20. The digital economy has become an important topic in the global economy. The rapidly growing digital technologies have transformed economies and our daily social activities in an unprecedented pace and dimensions. New technologies are quickly emerging and we must adapt to this new reality of life. Kenya has embarked on a digital transformation journey to ensure that we maximize on the opportunities for advancing sustainable economic development.

21. This far, Kenya boasts notable achievements and success stories in the digital economy arena. We are among the world leaders in driving financial inclusion through the use of digital finance solutions such as M-PESA, PesaLink and Pesapal. Adaption of the digital technology by individuals, businesses and Government underlines growth of e-commerce in Kenya. In 2016, about 39% of private enterprises were engaged in e-commerce and over 70 % of all e-commerce payments in Kenya are settled through various mobile money payment platforms.

22. The rising number of digital start-ups in Kenya and investments by leading multinational tech companies, have earned the country's reputation as the "Silicon Savannah" and has enabled a services-led growth. Industries are being created and variety of new products and services, both for Kenya and increasingly accessible to the global market.

23. Growth of the ICT sector have averaged 11.1 percent from 2013 positioning it as the main driver of inclusive growth. This growth has created digital jobs for

professionals of diverse background translating to improved quality of life and other auxiliary benefits to Kenyans.

24. Despite the achievements, we know that Kenya has more to offer and gain from the digital economy. To keep up the pace with the fast growing digital technology and harness the opportunities, the government is focused to build ecosystems that facilitates growth of digital economy in Kenya.

25. In this regard, we have developed a Digital Economy Blueprint, which reflects Kenya's support and championship of growth of an African-wide digital economy. The Blueprint is a forward looking framework that aims to tap into the opportunities that will unlock the digital economy potential and guide the transformational journey.

26. The blueprint highlights five pillars as foundation for growth of digital economy: that is, Digital Government; Digital Business; Infrastructures; Innovation-driven entrepreneurship and Digital skills and values. These pillars are based on the national priorities in Kenya vision 2030 and the Big Four Agenda, which aspires to make Kenya a globally competitive and informed society that effectively participated in the knowledge-based economy.

27. Under the **digital government pillar**, we aim to improve service delivery to the public, improve transparency and reduce opportunities for corruption and ensure cyber security.

28. Further, we want to move from start-up to growth and the goal of the **digital business pillar** is to create a digital economy where everyone and business can trade. The pillar focuses on developing digital trade, digital financial services and digital content.

29. Affordable, accessible and reliable infrastructure is fundamental to achieve an inclusive and sustainable digital economy. Under the **infrastructure pillar**, we are

looking into all forms of infrastructure both soft and hard which are prerequisite for establishment of a digital economy.

30. A well-developed **innovation-driven entrepreneurship** ecosystem provides the bedrock for a robust private sector. Kenya is already deeply engaged in the processes of understanding the levers that will push us to a fully automated, information- based economy. Kenya possess a number of elements that make up a vibrant innovative ecosystem, that is, young and relatively well educated population and strong bias towards innovation for growth.

31. Digital skills are a prerequisite for benefiting from any digital technology. The **digital skill pillar** is focused on developing skills for the citizens to meet the competencies and expertise required for the digital economy. We continue to improve skills through the various initiatives that include digital literacy program in the primary schools, presidential digital talent program and creating curriculum and centers of excellence in all levels of education.

32. This **KEU** identifies two possible areas of consideration in taxation of the digital economy. The two areas are: i) Sale and resale of (access to) digital content or digital solutions (software, operating systems, web design and cloud computing), and ii) Multi-sided platforms, including Ride-sharing and Airbnb. The digital economy bears great potential for revenue generation and the government is looking into ways to bring the digital economy in the tax bracket.