# Cytonn H1’2023 Markets Review

## Kenya Macroeconomic Review

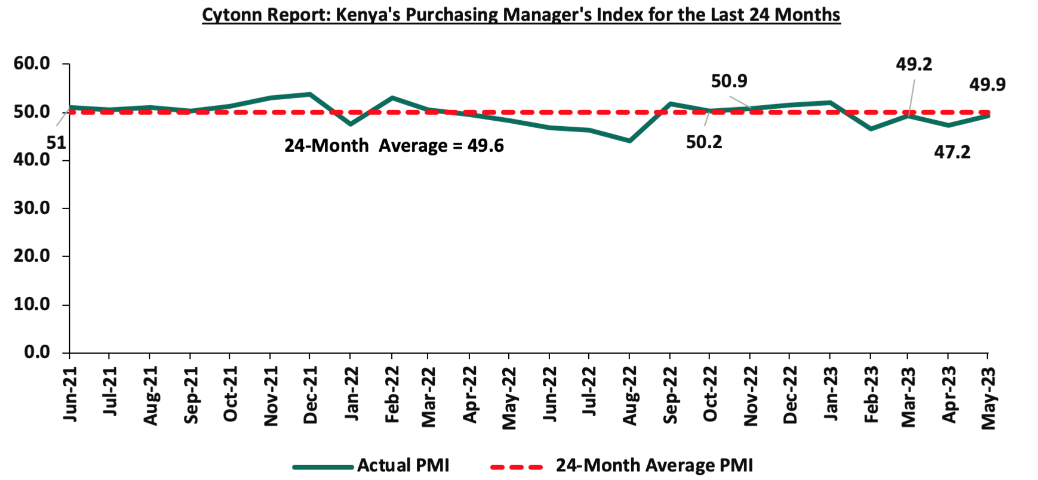
According to the Kenya National Bureau of Statistics (KNBS) Economic Survey 2023 the Kenyan economy recorded a 4.8% expansion in FY’2022, lower than the 7.6% growth recorded in FY’2021. The performance was supported by growth in most economic activities such as Financial and insurance, Information and communication and Transportation and storage which grew by 12.8%, 9.9% and 5.6%, respectively. The overall growth was however weighed down by the 1.6% contraction in the Agriculture, Forestry and Fishing sector, attributable to the drought experienced in most parts of the country in 2022. Despite the decline in the economic growth, the relatively high growth highlighted the economy’s resilience following multiple shocks such as supply chain constraints, soaring global fuel prices, elevated inflationary pressures and currency depreciation. The Kenyan Economy is projected to grow at an average of 5.2% in 2023 according to various organizations as shown below:

**Cytonn Report: Kenya 2023 growth Projections**

| No. | Organization | 2023 GDP Projections |
|---|---|---|
| 1 | International Monetary Fund | 5.1% |
| 2 | National Treasury | 6.1% |
| 3 | World Bank | 5.0% |
| 4 | Fitch Solutions | 5.1% |
| 5 | Cytonn Investments Management PLC | 5.0% |
| **Average** | | **5.2%** |

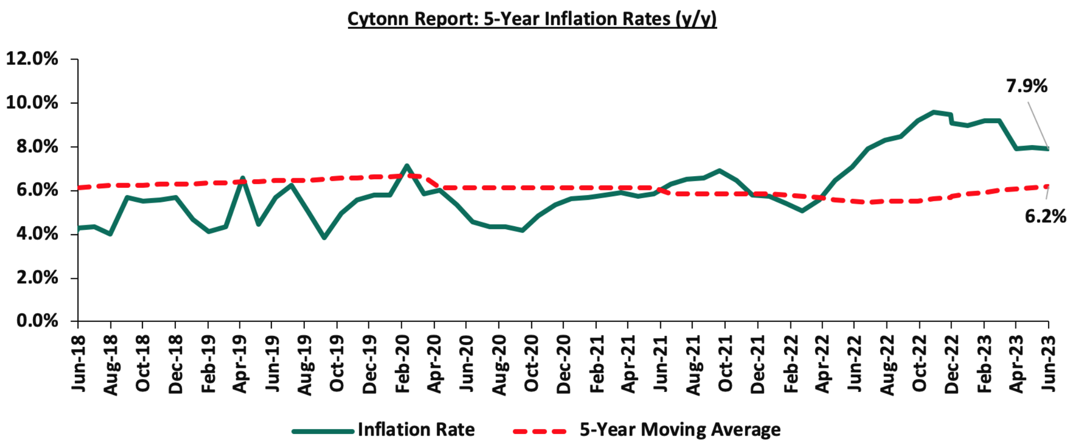
*Source: Cytonn Research*

Key to note, Kenya’s general business environment deteriorated in the first half of 2023, with the average Purchasing Manager’s Index for the first five months of the year coming at 48.9, compared to 49.7 recorded in a similar period in 2022. The deterioration was mainly on the back of the elevated inflationary pressures experienced in the country, which have seen consumers cut back on spending, coupled with aggressive depreciation of the Kenyan shilling which has contributed significantly to the fall in production output by most businesses. Additionally, the Moody’s Credit Rating agency downgraded Government of Kenya’s long-term foreign currency and local-currency issuer ratings and senior unsecured debt ratings to B3 from B2 with a negative outlook. The downgrade was on the back of increased liquidity risk partly attributable to reduced investor appetite of longer dated government securities and the rising cost of domestic issuance with investors demanding higher rates from government issuance. The downgrade indicates increased material default risk with very limited margin of safety amid tighter liquidity as well as high debt servicing obligations in the next fiscal year. The chart below summarizes the evolution of PMI over the last 24 months. (A reading above 50.0 signal an improvement in business conditions, while readings below 50.0 indicate a deterioration):




### Inflation:

The average inflation rate increased to 8.5% in H1'2023, compared to 6.3% in H1'2022, attributable to high fuel and food prices. Notably, fuel prices increased by 22.9%, 28.3% and 35.6% in June 2023 to Kshs 195.5, Kshs 179.7, and Kshs 173.4, from Kshs 159.1, Kshs 140.0, and Kshs 127.9 per liter in June 2022 for Super petrol, Diesel, and Kerosene, respectively. Inflation for the month of June 2023 marginally eased to 7.9%, from 8.0% recorded in May 2023, mainly driven by a 1.3% increase in the food and non-alcoholic beverages index. Below is a chart showing inflation trend for the last five years:




For the last 13 months, Kenya's inflation has persistently remained above the Central Bank of Kenya (CBK) target range of 2.5% - 7.5%, despite efforts by the Monetary Policy Committee (MPC) to contain the rise by raising the Central Bank Rate (CBR) by cumulative of 300.0 bps to 10.5% in June 2023 from the 7.5% CBR rate that was set in July 2022. Going forward, we expect the inflationary pressures to remain elevated in the short to medium term, mainly on the back of high food and fuel prices, which are key components of the headline inflation index. Additionally, the complete removal of the fuel subsidy, coupled with the increase in VAT on petroleum products to 16.0% from 8.0% in the new Finance Act 2023 is expected to add more pressure on the fuel prices in the country.

### June 2023 Inflation

The year-on-year inflation rate in the month of June 2023 eased to 7.9%, from the 8.0% inflation rate recorded in the month of May 2023, while the monthly inflation rate for June 2023 was 0.8%. This was in line with our expectation of the inflation rate to come in within a range of 7.7%-8.1%. The headline inflation was largely driven by increase in prices of commodities in the following categories;

food and non-alcoholic beverages; housing, water, electricity, gas, and other fuels; and transport. The table below shows a summary of both the year on year and month on month commodity indices performance:

**Cytonn Report: Major Inflation Changes – June 2023**

| Broad Commodity Group | Price change m/m (May-2023/June-2023) | Price change y/y (May-2022/June-2023) | Reason |
|---|---|---|---|
| Food and Non-Alcoholic Beverages | 1.3% | 10.3% | The m/m increase was mainly driven by increase in price commodities such as carrots, onions, tomatoes and maize grain-loose. The increase was, however, mitigated by drop in prices of commodities such potatoes, avocado, kales and cabbages |
| Housing, Water, Electricity, Gas and Other Fuel | 0.6% | 9.4% | The m/m change was mainly due to increase in prices of electricity. The increase was, however, mitigated by the drop in prices of LPG gas |
| **Overall Inflation** | **0.8%** | **7.9%** | **The m/m was mainly driven by 1.3% increase in prices of food and non-alcoholic Beverages** |

Inflationary pressures in the country continue to remain elevated and above the Central Bank of Kenya target range of 2.5%-7.5% for a thirteenth consecutive month to June 2023, with commodities under food and non-alcoholic beverages being the largest contributors of inflation. The sustained inflationary pressures continue despite the monetary policy committee intervening with subsequent hikes in the Central Bank Rate, raising the CBR rate by a cumulative of 300.0 bps since July 2022 to 10.50% in June 2023. Going forward, we expect the inflationary pressures in the country to remain elevated in the short to medium term due to high fuel and electricity prices following the increase on VAT on petroleum products to 16.0% in the Finance Act 2023 from 8.0% that was introduced in 2018, with fuel prices being a major contributor to the headline inflation. Additionally, the sharp rise in sugar prices witnessed in the month of June, coupled with the introduction of excise duty on imported sugar at the rate of Kshs 5.0 per kg is expected to exacerbate the food inflation. Further, we are of the view that the eventual slowdown in inflationary pressure is pegged on removing the impediments on the supply and production chain so as to match the supply and demand side thereby easing food supply deficit in the country.

**The Kenyan Shilling:**

The Kenyan Shilling depreciated against the US Dollar by 13.9% in H1’2023, to close at Kshs 140.5, from Kshs 123.4 as at the end of FY’2022, partly attributable to increased dollar demand from importers, especially in the energy, oil and manufacturing sectors. Key to note, this is the lowest the Kenyan shilling has ever depreciated against the dollar. During the week, the Kenya Shilling depreciated against the US Dollar by 0.1% to close at 140.5, from 140.4 the previous week. We expect the shilling to remain under pressure in 2023 as a result of:

i. An ever-present current account deficit estimated at 4.9% of GDP in twelve months to January 2023, from 5.6% recorded in a similar period last year, and,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.3% of Kenya’s external debt was US Dollar denominated as of March 2023

The shilling is however expected to be supported by:

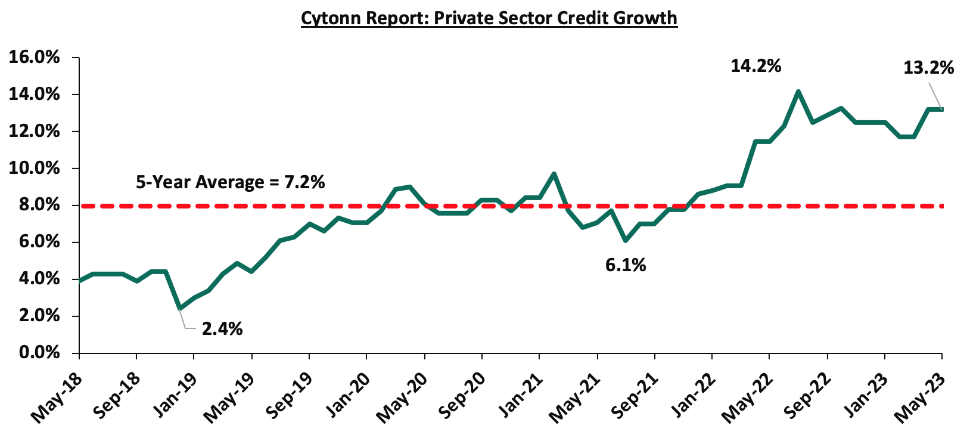
i. Diaspora remittances standing at a cumulative USD 1,688.0 mn in 2023 as of May 2023, albeit 1.8% lower than the USD 1,718.6 mn recorded over the same period in 2022, which has continued to cushion the shilling against further depreciation. In the May 2023 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 55.4% in the period, followed by Europe at 17.7% while the rest of the world accounted for 26.8% of the total,

ii. High Forex reserves currently at USD 7.5 bn (equivalent to 4.1-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, albeit lower than EAC region's convergence criteria of 4.5-months of import cover. In addition, the reserves were boosted by the USD 1.0 bn (Kshs 138.6 bn) World Bank loan facility received in June 2023 under the Development Policy Operation (DPO) and are expected to be boosted further by the expected USD 410 mn (Kshs 56.7 bn) from the International Monetary Fund (IMF) and the USD 500.0 mn (Kshs 69.6 bn) commercial loan secured from a syndicate of global banks consisting of American Citibank, British Standard Chartered Bank, Stanbic Bank, and South Africa's RMB Holdings Ltd, and,
iii. The tourism inflow receipts came in at KSHS 268.1 bn in 2022, a significant 82.9% increase from KSHS 146.5 bn inflow receipts recorded in 2021

**Monetary Policy:**

The Monetary Policy Committee (MPC) met four times in H1'2023 and for the first time since May 2016, the Central Bank Rate was set at 10.5% in the Fourth sitting in June 2023. The MPC noted that the sustained elevated inflationary pressures in the country on the back of high fuel and commodity prices. Below are some of the Key highlights from the meeting:

i. Overall Inflation increased to 8.0% in May 2023 from 7.9% in April 2023 on the back of high food and fuel prices in the country. Food inflation rose to 10.2% in May 2023 from 10.1% in April 2023, mainly due to increases in the prices of for sugar. However, the food inflation was slowed down by the decrease in the price of some key food items such as vegetables attributable to improved supply due to long rains and lower global food prices. Additionally, fuel inflation remained elevated at 13.6% in May 2023 from 13.2% in April 2023 attributable to the government's decision to completely remove fuel subsidy program coupled with the upward adjustments of electricity prices. We expect the inflation to remain elevated in the near term partly attributed to the high electricity prices, the removal of fuel subsidy and associated second round effect,
ii. The leading economic indicators pointed to a strong performance of the Kenyan economy in the first half of 2023 driven by the activities in the service sector and the recovery of the Agriculture sector. The economy is expected to remain resilient in 2023 supported by continued strong performance of the services sector and expected recovery in agriculture sector,
iii. The Central Bank of Kenya forex reserve which currently stand at USD 7.5 bn representing a 4.1 months of import cover, continues to provide adequate cover against any short term shocks in the foreign exchange markets
iv. Private sector credit growth stood at 13.2% in May 2023, similar to what was recorded in April 2023. Key sectors that recorded strong credit growth were transport and communication, manufacturing, trade, and Consumer durables of 22.0%, 19.3%, 15.4%, and 11.9%. Consequentially, the number of loan application and approval remained strong, reflecting increased demand and resilient economic activities. The chart below shows the movement of the private sector credit growth of the last five years:




v. Goods exports remained strong having grown by 5.5% in the 12 months to May 2023 compared to

12.1% recorded in a similar period in 2022. Notably, receipts from tea and manufacturing goods exports increased by 10.2% and 25.4%, respectively during the period. The increase in receipts from tea exports is attributed to improved prices due to increased demand from traditional markets. In addition, imports declined by 2.3% in the 12 months to May 2023 compared to 20.4% growth recorded in a similar period in 2022, on the back of lower imports of infrastructure related equipment due to completion of major projects. Remittances stood at USD 4.0 bn in 12 months to May 2023 and were 0.1% higher compared to what was recorded in the same period in 2022,

vi. The banking sector remains resilient and stable with strong liquidity and capital adequacy ratios, despite the deterioration in asset quality. The Gross Non-Performing loans to gross loans ratio increased to 14.9% in May 2023, compared to 14.6% in April 2023. The increase in non-performing loans was noted in sectors such as Manufacturing, trade, real estate and transport and communication sector. However, banks have continued to make adequate provisioning for the NPLs, and,

vii. The Committee noted the ongoing implementation of the FY2022/23 Government Budget, particularly the recent strong tax revenue collection reflecting enhanced tax administration efforts, evidenced by the revenue collections of Kshs 1,812.2 bn in the FY'2022/2023 as at the end of May, equivalent to 82.7% of the revised estimates of Kshs 2,192.0 bn for FY'2022/2023 and was 90.2% of the prorated estimates of Kshs 2,009.3 bn. The committee also noted the proposed FY2023/24 budget is expected to support the envisaged fiscal consolidation.

The MPC concluded that following the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy, there was a need for further tightening of the monetary policy in order to anchor inflation within its target range of 2.5% to 7.5%. Going forward, we expect the inflationary pressures to remain elevated in the short term, mainly on the back of high food and fuel prices. Additionally, the implementation of the Finance Act 2023 which contains a number of tax adjustments such as increase in VAT on petroleum products to 16.0% from the 8.0%, as well as introduction of excise duty of Kshs 5.0 per kg on imported sugar is expected to worsen fuel and food prices with businesses transferring the added cost to the consumers. The Committee will meet again in July 2023, but will closely monitor the impact of the policy measures as well as development in domestic and global economy and take additional measures as necessary.

**Fiscal Policy:**

The total Kenyan budget for the FY'2023/2024 National Budget increased by 8.7% to Kshs 3.7 tn from the Kshs 3.4 tn in FY'2022/2023 while the total revenue inclusive of grants increasing by 15.7% to Kshs 3.0 tn from the Kshs 2.6 tn in FY'2022/2023. The increase is mainly due to a 17.3% increase in ordinary revenue to Kshs 2.6 tn for FY'2023/2024, from the Kshs 2.2 tn in FY'2022/2023 with the increase largely dependent on the effectiveness of the Kenya Revenue Authority in collecting taxes as well as increase in some of the existing taxes to meet its revenue target. However, there are still concerns about the government's ability to meet its revenue collection targets in FY'2023/2024, on the back of the current operating environment with the business environment deteriorating to an average PMI for the first 5 months in 2023 coming at 48.9 below the 50-mark threshold, mainly occasioned by high inflationary pressures and the rising interest rates. For more information, see our note on Kenya's FY'2023/2024 Budget Review.

For the FY'2022/2023, we do not expect the government to meet its revenue collection target having collected Kshs 1,812.7 bn, equivalent to 82.7% of the revised estimates of Kshs 2,192.0 bn for FY'2022/2023 and 90.2% of the prorated estimates of Kshs 2,009.3 bn in the first eleven months of FY'2022/2023. Notably, the total expenditure amounted to Kshs 2,601.6 bn, equivalent to 72.0% of the revised estimates of Kshs 3,612.3 bn, and 86.4% of the prorated expenditure estimates of Kshs 3,010.3 bn, an indication of modest spending by the government. The total borrowings as at the end of May 2023 amounted to Kshs 776.4 bn, equivalent to 55.2% of the revised estimates of Kshs 1,407.1 bn and 60.2% of the prorated estimates of Kshs 1,289.9 bn.

***Going forward, we believe that the Tax adjustments in the adopted finance act 2023 will widen the tax base revenue for the government and the full implementation of the act will enable the government enhance the revenue collections.***

**H1'2023 Highlights:**

i. The Kenya Revenue Authority released the draft regulations for the Excise Duty (Excisable Goods Management Systems)(Amendment) Regulations, 2023 having reviewed the previous Excise Duty (Excisable Goods Management Systems)(Amendment) Regulations, 2017, under the Excise Duty Act No. 23 of 2015, seeking to increase the stamp duty fees on various commodities. For more information, please see our Cytonn Weekly #03/2023,
ii. The National Treasury presented the Supplementary Budget for FY'2022/23 to the National Assembly, seeking to slightly increase the gross total budget by 0.4% to Kshs 3,373.3 bn, from the previous estimates of Kshs 3,358.6 bn. Mainly due to an increase in the recurrent expenditure by 6.6% to Kshs 1,496.9 bn in the Supplementary estimates from Kshs 1,403.9 bn in the Original estimates. On the other hand, Development expenditure was set to reduce by 14.9% to Kshs 609.1 bn in the supplementary estimates from Kshs 715.4 bn in the original estimates. For more information, please see our Cytonn weekly #06/2023,
iii. S&P Global Ratings downgraded Kenya's outlook to negative from stable, signaling increased risks of defaults in debt repayments amid weakening liquidity position aggravated by sustained decline in foreign exchange reserves as well as high debt servicing obligations in the next fiscal year. Furthermore, the constrained access to international capital markets has heightened Kenya's medium term fiscal and external refinancing risks. For more information, please see our February 2023 Cytonn Monthly,
iv. The Central Bank of Kenya announced the issuance of the Foreign Exchange Code (the FX Code) on 22 March 2023 to commercial banks, in a move to regulate wholesale transactions of the foreign exchange market in Kenya. For more information, please see our Cytonn Weekly #12/2023,
v. The Central Bank of Kenya announced the issuance and usage of the Kenya Quick Response Code Standard 2023 (KE-QR Code Standard 2023) which is aimed at guiding banks and payment service providers that are approved and regulated by the Central Bank in issuing of Quick Response Codes to consumers and businesses that accept digital payments. For more information, please see our Cytonn Weekly #18/2023,
vi. The Moody's Credit Rating agency downgraded Government of Kenya's long-term foreign currency and local-currency issuer ratings and senior unsecured debt ratings to B3 from B2 with a negative outlook. This indicated increased material default risk with very limited margin of safety amid tighter liquidity. For more information, please see our Cytonn Weekly #19/2023,
vii. The International Monetary Fund (IMF) announced that it had reached a staff level agreement with Kenyan authorities to conclude the fifth reviews of Kenya's economic program under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements. This will allow Kenya to access financing of USD 410.0 mn (Kshs 56.7 bn) once the formal review is completed by July 2023. For more information, please see our Cytonn Weekly #21/2023,
viii. The World Bank approved a USD 1.0 bn (Kshs 138.6 bn) loan under the Development Policy Operation (DPO) to provide low cost budget financing, as well as to support key policy and institutional reforms for Kenya's near term objectives of fiscal consolidations and long term goal of green and inclusive growth. For more information, please see our May 2023 Cytonn Monthly,
ix. The Kenya National Bureau of Statistics (KNBS) released the y/y inflation for May 2023, which came in at 8.0%, up from the 7.9% recorded in April 2023. This was in line to our expectations of an increase to within a range of 7.9% to 8.3%. For more information, please see our May 2023 Cytonn Monthly,
x. Stanbic Bank released its monthly Purchasing Manager's Index (PMI), highlighting that the index for the month of May 2023 came in at 49.2, up from 47.4 in April 2023, showing some slight

improvement in business environment but still a contraction. This is the fourth consecutive month of sustained deterioration in the business environment. For more information, please see our Cytonn Weekly #23/2023,

xi. The government of Kenya secured a commercial loan of USD 500.0 million (Kshs 69.6 billion) to ease its financial distress According to the director-in-charge of debt management at the National Treasury, the loan was tapped from a syndicate of global banks consisting of American Citibank, British Standard Chartered Bank, Stanbic Bank, and South Africa's RMB Holdings Ltd. For more information, please see our Cytonn Weekly #23/2023,
xii. The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 June 2023 to 14 July 2023. Notably, retail fuel prices for Diesel and Super Petrol per litre declined by 0.7% and 0.4% to Kshs 167.28 and Kshs 182.04, from Kshs 168.40 and 182.70 respectively. However, the retail price per litre for Kerosene increased by Kshs 0.2% to Kshs 161.48 from Kshs 161.13. For more information, please see our Cytonn Weekly #24/2023, and,
xiii. The National Treasury gazetted the revenue and net expenditures for the eleven months of FY'2022/2023 ending 31 May 2023, highlighting that revenue collected as at the end of May 2023 amounted to Kshs 1,812.2 bn, equivalent to 82.7% of the revised estimates of Kshs 2,192.0 bn and 90.2% of the prorated estimates of Kshs 2,009.3 bn. For more information, please see our Cytonn Weekly #24/2023.

**Weekly Highlights:**

I. **Finance Act 2023**

The Cabinet Secretary for the National Treasury tabled the Finance Bill 2023 to the parliament for discussion and was assented into law by the President of Kenya on 27 June 2023. As highlighted in our Cytonn Weekly #25/2023, the proposed tax measures in the Finance Bill 2023, were expected to add Kshs 379.2 bn to the exchequer for the fiscal year 2023/24. After discussion and consideration by the parliament, the bill was passed by Parliament following the third reading. Below, we highlight the key tax changes in the assented Finance Act as a follow up to our previous highlight;

**Under the Income Tax Act;**

i. Introduction of withholding tax (WHT) on Payments made in respect of digital content monetization. The Finance Bill 2023 had proposed introduction of 15.0% WHT on collections made by digital content creators, however the finance committee made an amendment to the clause by capping the WHT at 3.0%. The government move to introduce the WHT on digital content is attributable to the growing popularity of digital content creation in Kenya due to increase access to internet, digital marketing and the growing youthful population, as such it will enable the government to widen its tax base,
ii. The Finance Bill 2023, introduced a new contribution to the National Housing Development Fund (NHDF). Initially, the bill had proposed a 3.0% deduction from employees' basic monthly salary with the employer matching the contribution. However, the finance committee recommended a downward revision of the rate to 1.5% deduction from employees' basic monthly salary, with the employer matching the contribution. Additionally, the committee proposed the removal of the maximum limit of individual contributions, and the contributors will not access their contributions at the end of the 7 years as earlier proposed,
iii. Introduction of a new tax at a rate of 15.0% for repatriated profit for non-residents who do not distribute dividends in Kenya, equivalent to the rate charged on dividend paid to non-residents,
iv. The Finance Bill 2023 proposed to change the bands for Turnover Tax (ToT) to a range of Kshs 500,000.0 to Kshs 25.0 mn from the current Kshs 1.0 mn to Kshs 50.0 mn. Additionally, the bill proposes to increase the turnover tax to 3.0%, from the current 1.0%. The move by the government to increase the turnover tax is mainly to increase its revenue,
v. The bill also proposed reduction of the rate of Residential Rental Income tax to 7.5% from the

current 10.0% in a bid to promote compliance of property owners and boost the government's revenue collection,

vi. The Finance bill 2023 proposed to introduce a 5.0% WHT on payments made to residents' persons or permanent establishments in respect to sales promotions, marketing and services. The move is to enhance compliance in the industry by tracking the revenues earned by the respective service providers and enhance compliance, and,
vii. The Finance Bill 2023, proposed to introduce two new tax band; i) 32.5% for monthly incomes between Kshs 500,000.0 and 800,000.0, and, ii) 35.0% for monthly incomes above Kshs 800,000.0. A move aimed at increasing the tax revenue to support the fiscal budget. However, with majority of Kenyans earning less than Kshs 100,000.0 per month, its impact on the tax revenue will be very negligible.

**Under the Excise Duty Act**;

i. The Finance Bill 2023 proposed to repeal annual inflation adjustment, which currently the commissioner general has the power to adjust the specific rate of excise duty once per year to consider inflation. The proposal is a welcomed move since it will provide much-needed certainty for business planning,
ii. The finance bill 2023 proposed the introduction of excise duty on imported sugar at the rate of Kshs 5.0 per kg excluding the sugar imported or purchased locally for use in the manufacture of pharmaceutical products,
iii. The Finance bill 2023, proposed an introduction of 15.0% excise duty on fees charged on the advertisement on alcoholic beverages, betting, gaming, and lottery and prize competition, a move aimed at discouraging consumption of the services deemed inimical to citizens,
iv. The Finance bill 2023 proposed the introduction of excise duty on imported fish at Kshs 100,000.0 per metric ton or 10.0% of the value, a move aimed at protecting the local fishing industry,
v. The bill proposed to introduce a fine of Kshs 5.0 mn or a jail term not exceeding 3 years upon conviction to offenses relating to excise stamps. A proposal aimed at curbing illicit trade in excisable goods and encourage compliance that may support revenue collection by the government, and,
vi. The bill proposed to decrease excise duty on telephone, internet, and fees charged on money transfer services agencies and other financial services to 15.0% from the current 20.0%. This proposal is aimed at increasing the affordability of mobile devices and promote accessibility to these services.

**Under the Value Added Tax Act;**

i. The Finance Bill 2023 proposed to subject petroleum products excluding liquid petroleum gas (LPG) to a VAT at a standard rate of 16.0%, up from the 8.0% introduced in 2018, this was after a transition clause that provided for an exemption of VAT for such products for a period of 2 years expired. The proposed move is expected to increase the cost of production, given that fuel is a major input in most businesses. As such the cost of living is expected to rise given that producers will pass the cost to consumers through hike in consumer prices. On the other hand, the bill proposed the zero rate on LPG products to lower their cost, and,
ii. The bill also proposed the removal of VAT for Aircraft, parts and engines as part of the government's bid to support the aviation sector and improve the profitability of the airlines

Given the tight fiscal space, the Finance Bill 2023 aims to shore tax revenue which is expected to support the 3.7 tn budget for FY'2023/2024. The government intends to mobilize ordinary revenue of Kshs 2.6 tn, 17.3% increase from the 2.2 tn in FY'2022/23. As such, the government will have a fiscal deficit inclusive of grants of Kshs 718.0 bn. However, we expect the increase and introduction of additional taxes in addition to the changes in National Health Insurance Fund (NHIF) contributions and the new contribution requirement in the National Social Security Fund (NSSF) to severely impact households' disposable income.

## II. **Fuel Prices**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their addendum to monthly statement on the maximum retail fuel prices in Kenya that was released on 14 June 2023. The move was in line with the expected implementation of the Finance Act 2023 which has revised the VAT on Petroleum products to 16.0% from 8.0% effective 1 July 2023. Notably, fuel prices for Super petrol, Diesel, and Kerosene increased to Kshs 195.5, Kshs 179.7 and Kshs 173.4, from Kshs 182.0, Kshs 167.3, and Kshs 161.5 respectively.

Fuel prices in the country remain elevated, despite global fuel prices dropping by 11.6% to USD 74.3 per barrel as of 29 June 2023, from a high of USD 84.1 per barrel recorded on 1 April 2023 and the average landed costs declining during the month of May except for Diesel. Notably, the elevated fuel prices are mainly on the back of the government's decision to completely remove the fuel subsidy program which cushioned consumers against the high fuel prices, coupled with the continued currency depreciation being experienced in the economy, hence elevating the cost of fuel importation.

Going forward, we maintain the view that the government needs to implement long term strategies to resuscitate the currently weakening Kenyan shilling given that the global fuel prices and the average landing cost of fuel are dropping yet the effect is not reflecting the fuel prices in the country as the fuel prices continue to rise. Additionally, the rise in fuel prices in the country is expected to underpin inflationary pressures in the country, as fuel is a major input in most businesses

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