

Economic Update

Return to pre-Covid-19 VAT and Income Tax rates

On 4th December 2020, the National Treasury announced the return to pre-Covid-19 Value Added Tax (VAT) and Income tax rates effective 1st January 2021, in light of the easing of some containment measures and subsequent resumption to normalcy. After the first confirmed case of Covid-19 was reported on March 14th 2020, temporary tax relieves were introduced as part of containment measures in response to the pandemic to provide a temporary cushion for business and people. In the preceding 7 months, the government disclosed it had foregone KES 65 billion in tax revenues as at 31st December 2020, and the gap arising will affect the implementation of programmes and the recovery of the economy in general.

Following the announcement, on 23rd December 2020, the President assented the Tax Laws (Amendment) Bill 2020 that was passed by Parliament. Hence, income tax for individuals and corporates reverted to 30% from 25%, while the Value Added Tax (VAT) rate reverted to 16% from 14%, in order to plug revenue shortfalls. The government, however, has retained 100% tax relief for individuals earning KES 24,000 and below, and will continue to roll-out interventions under the KES 58.1 billion Economic Stimulus Programme in order to cushion citizens and businesses.

Headline inflation rose to 5.62% in December 2020

Headline inflation rose to 5.62% in December 2020 compared to 5.33% recorded in the month of November. The Food and Non-Alcoholic index rose by 2.45% in December compared to the 1.54% increase recorded in November. Year-on-year food inflation increased at a faster rate of 7.19% in December from 6.09% in November.

This was contributed by increase in prices of spinach, oranges and kales by 8.09%, 6.18% and 5.61%, respectively, which outweighed the decreases in the prices of others.

The Housing, Water, Electricity, Gas and Other Fuels’

Index, increased by 0.59% in December 2020. This was mainly due to increases of 0.76% and 2.08% in the cost of electricity and kerosene, respectively.

The Transport Index also increased by 1.15% due to a rise in the retail prices of diesel and petrol by 1.20% and 0.92%, respectively.

The Currency

The Shilling has weakened by 7.73% against the USD year to date

In the month of December 2020, the Kenya Shilling strengthened marginally by 0.80% against the US dollar to close the month at KES 109.17 from KES 110.05 in October.

The strengthening of the shilling was due to:

- i. Slowed demand for dollars from importers on the onset of the festive season.
- ii. Continuous interventions by the Central Bank against shocks.

During the month, the Central Bank of Kenya keenly monitored the performance of the shilling and held forex reserves of USD 7,750 million equivalent to 4.76 months of import cover as at 31st December 2020.

The shilling has weakened year to date by 7.73% against the USD as well as weakened against major global currencies but strengthened against the regional currencies.

We view, key risks to the KES are as follows:

- i. The ongoing Covid-19
- ii. Reduced portfolio inflows
- iii. Upcoming foreign debt interest payment
- iv. Global expansionary monetary and fiscal stance being undertaken by the Central Banks

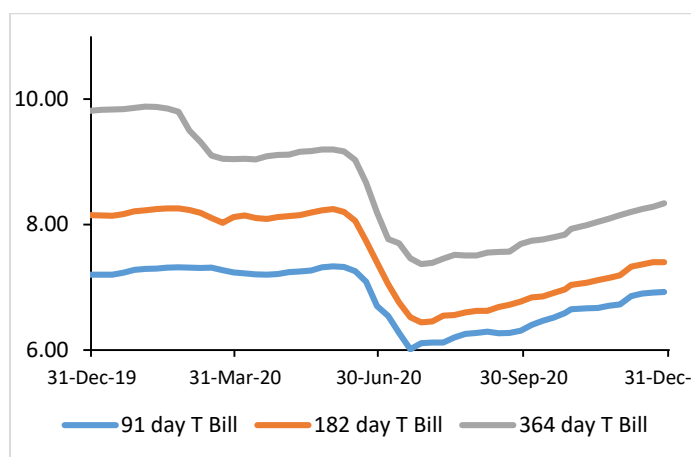
Kenya Shilling Performance	Nov-20	Dec-20	YTD
USD	(1.13%)	0.80%	(7.73%)
Sterling Pound	(3.07%)	(1.11%)	(11.60%)
Chinese Yuan	(2.62%)	(0.14%)	(15.35%)
Japanese Yen	(1.59%)	0.03%	(14.14%)
Uganda Shilling	2.18%	0.71%	7.70%

Central Bank of Kenya, Madison Investment Managers Limited (MIML) Research

Fixed Income Performance

Yields on the money market instruments maintained upward momentum in December

During the month under review, average yields on the 91-day, 182-day and 364-day papers increased by 20, 21 and 19 basis points respectively. Overall subscription decreased to 52.81% on average from 102.75% observed in November 2020.



(Central Bank of Kenya, Madison Investment Managers Limited (MIML) Research)

The Central Bank in the December Auction re-opened two bonds – FXD1/2012/15 and FXD2/2019/15 seeking to raise to KES 40bn for budgetary support. The auction was undersubscribed at 60.85%. The Central Bank received bids worth KES 24.34bn and accepted KES 18.26bn resulting in an acceptance ratio of 75.02%.

The weighted average rate of accepted bids for the two bonds came in at 11.461% and 12.807%, respectively, while the coupon rate was 11.000% and 12.734%, respectively. The two bonds are subject to a withholding tax rate of 10.0%.

Secondary bond turnover rose by 19.96% in December 2020 to KES 55.96 bn from KES 45.96 bn.

Equities Market Performance

The equities market recorded positive performance in December

During the month of December 2020, the indices were on an upward trend. NASI, NSE 20 and NSE 25 gained by 4.76%, 6.16% and 4.63%, respectively. Large cap stocks recorded positive performances with Safaricom, KCB and Equity gaining by 3.98%, 2.97% and 5.64%, respectively, in the month of December. Safaricom closed the year at an all-time high of KES 34.25 per share.

Foreign investors remained net sellers with net flows of KES 0.35 billion compared to the net selling position of KES 1.19 billion recorded in November.

Equities turnover in the month of December fell by 10.18% to KES 10.23 bn from KES 11.39 bn.

Global Markets

Race towards vaccination

In the month of December, we witnessed a global race to start vaccination campaigns amid second waves of Covid-19 infections and alarm over a new variant of the virus reported to be spreading quickly in South Africa and UK.

On 8th December 2020, UK was the first country to authorize mass immunization with the Pfizer/BioNTech vaccine against Covid-19. This authorization front-ran the approval of the vaccine for use and distribution in the European Union. The United States, on the other hand, approved the Moderna Covid-19 vaccine on 15th December 2020.

Locally, the ministry of Health expects to receive the Oxford-AstraZeneca vaccine within the next 45 days and targets to prioritize jobs starting with healthcare workers, police officers, teachers and students

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