



### Tax receipts decline in July 2020

- Total tax receipts in the first month of the financial year fell 12%, mirroring an environment of depressed economic activity hurting business and household incomes.
- Revenue statistics published on Friday showed Kenya Revenue Authority (KRA) collected KES.94.5Bn in taxes in July compared with KES.107.5Bn a year earlier, the lowest receipts since 2017.
- The KES.12.9Bn drop in taxes came in a month businesses reported growth in activity for the first time this year, according to a closely-watched monthly survey, but jobs continued contracting.
- Historically, the review month (July) has been a slow month in ordinary revenue mobilization and this was exacerbated by Covid-19 containment measures,
- July, however, marked the first month since December 2019 that companies reported significant increment in sales.

### Our View:

- **We expect total tax receipts for the fiscal year to be below the target of KES.1.63Tn and to decline from KES.1.51Tn received in FY2019/20 on account of a depressed economy.**
- Unemployment levels will continue to increase as sectors such as tourism, hospitality and manufacturing remain subdued.
- Covid-19 uncertainty remains elevated and the reduced corporate tax rate in an effort to boost the economy will worsen the situation.
- The economy on aggregate is still depressed and we expect the reduced revenue to widen the budget deficit.
- We expect an increase in the fiscal deficit to increase government borrowing beyond the KES.840.6Bn (KES.494Bn – domestic borrowing) which will crowd out the private sector. In the long run we anticipate a gradual recovery in economic growth post Covid-19.