NEWS BUSINESS

MORE PAY CUTS

Kenyans fund housing plan

Government aims to create 500,000 new home owners in the next five 5 years

National Housing Corporation flats in Nairobi West. Apartments dominate the rental market /FILE

ABEL MUHATIA
@muhatiaa

Urban centres are likely to face a shortage of 300,000 housing units in two years,Treasury CS Henry Rotich has said.

Research from the National Housing Corporation shows Kenya faces a housing deficit of two million units,while housing demand grows by 250,000 units annually. The supply only grows by 50,000, meaning that the deficit grows by 200,000 units annually.

To reduce this deficit, Kenyans will have to part with Sh5,000 from their monthly salary to help the government fund its affordable housing agenda.

Second among President Uhuru's Big four plan, it targets to make 500,000 new homeowners in the next five years.

During last week's budget reading, Rotich proposed to amend the Employment Act such that both an employer and employee shall contributed to the National Housing Development Fund.

An amendment to the act would requiret an employer contributes to the Fund for each employee 0.5 per cent of the employee's gross monthly salary subject to a maximum of Sh5,000 while. The employee will contribute- 0.5 per cent of their monthly gross earnings.

If established , the fund would be the third kitty after National Hospital Insurance Fund and National Social Security Fund that would see salaried Kenyans contribute monthly.

The CS said the move to establish the fund is meant to ease responsibilities of the National Housing Corporation which is meant to take up more strategic roles in resource mobilization. The corporation is expected to manage tenant purchase schemes and provide alternative financing strategies for low cost housing and the associated social and physical infrastructure.

Aside from the proposed fund, the government has also established a new company that will help Kenyans own houses at affordable rates.

The Kenya Mortgage Refinance Company, incorporated in April will receive an estimated Sh2 billion from World Bank and shareholders. It is aimed at increasing mortgage uptake that Kenyans have been shying away from.

Data by KNBS shows 74.4 per cent of employees in the formal sector earn less than Sh50,000 per month, and thus mortgages are out of reach given the average mortgage size was Sh9.1 million as at 2016. This requires monthly repayments of Sh106,000.

KMRC will offer loans to only civil servants, self employed or salaried persons at a fixed interest rate for a minimum period of time which will vary depending on the project's success.

The loans will range between Sh1 million and Sh15 million for a five to 30 years term limit.

"With a view to extending long term loans to financial institutions secured against mortgages, we have established the Kenya Mortgage Refinance Company (KMRC), which will be jointly owned by the Government, the private sector and select development partners. This company was incorporated in April 2018 and has started raising capital," Rotich said.

THE DATA

18.35

Billion Kenya Shillings

The amount accepted by the Central Bank on behalf of the government during last week's auction of the 91, 182 and 364-day Treasury Bills.

QUICK VIEW

The Kenya Bankers Association will organise a Television debate on the impact of the Banking Amendment Act (2016). The event at Strathmore University will focus on promoting sustainable economic growth.

MARKET REPORT
ALY KHAN SATCHU

Cut taxes and cast the tax net wider

Last week, the big headline event was the synchronised release by EAC Finance Ministers [Kenya's Henry Rotich, Tanzania's Philip Mpango, Uganda's Matia Kassaija, and Rwanda's Uzziel Ndagijimana] of their individual budgets for the 2018/2019 fiscal year beginning July 1st. According to the budget numbers presented, Kenya's Budget is twice the size of Tanzania and bigger than Tanzania, Uganda and Rwanda combined. Kenya, Tanzania and Uganda plan to borrow more than $12 billion to plug budget deficits in the new financial year. Kenya has a deficit of $5.58 billion, while Tanzania has a $4.6 billion hole and Uganda $2.4 billion.

"Under this fiscal consolidation plan, we project the fiscal deficit to narrow to 5.7 per cent of GDP in the FY 2018/19 from the estimated 7.2 per cent of GDP in the FY 2017/18 and further to around 3 per cent of GDP by FY 2021/22. As such, this will help stabilise the Net Present Value of debt to GDP ratio at below 50 per cent, which is well below the 74 per cent threshold considered to signal an unsustainable debt position," CS Rotich said.

Genghis Capital said it expected Nairobi's interest payments in the 2018/19 fiscal year to grow by 31.11% to $3.9 billion while redemptions will increase 36.7% to $4.7 billion.

The Ugandan Finance Minister Matia Kassaija said "Our ratio of public debt to GDP now stands at 38.1% in nominal terms, which is much lower than the threshold of 50 per cent beyond which public debt becomes unsustainable," he said.

There is self-evidently a difference of opinion between ourselves and the Ugandans about what is a sustainable debt position.

Interestingly, Tanzania presented the most fiscally conservative budget and is reducing corporate income tax for new companies to 20 per cent from 30 per cent for their first three years of operation to encourage investment.

At a macro level, what is clear is that EAC countries have embarked on a debt-fuelled investment binge and the sustainability of the debt will be decided by the ROI [Return on Investment] of the investments made. This point will come into sharper relief as the US continues to dial up US interest rates and reduce the extraordinary stimulus.

Emerging Markets have been pounded of late, currencies have been crashing from Turkey to Argentina and President Kenyatta seems seized of the direction of travel going by the generosity of his welcome of the IMF's Lagarde at the G7. Therefore, the Go-Go days when you just stuck up your hand and asked for half a billion dollars and got $2b are behind us and its high time our policy makers got with the programmme.

Prime Minister Abiy Ahmed of Ethiopia has read the writing on the wall and hence his economic pivot which caught his own party and the rest of the world off-guard.

In these moments, being ahead of the curve pays exponential dividends and the mercurial Abiy is delivering on all fronts. I think he saw very clearly how Sri Lanka got "Hambantota-ed" [Sri Lanka borrowed billions from China to build a Port - The Hambantota Port - it is a white Elephant - a vanity Project - and China [Sri Lanka's Creditor] has taken it back on a 99 year lease].

So the first overarching point, is that creditors are not Santa Claus and miscues will exact a very heavy price. Countries will be "Hambantota-ed"

Now if you look at all the budgets, the common thread running through all of them is the size of the recurrent expenditure dwarfs everything else. Therefore taxpayers have to ask ourselves, are we getting value for money?

The situation reminds me of a time before Uber. Today my taxi fares are about a third of what it cost me pre-Uber. The question is therefore how do we uber-ize government? How do we Kodak the existing structure and move to an "Uber" future. I have no doubt that we could take two thirds of the cost out of the recurrent expenditure. Again, we need to get ahead of this curve. If we don't get ahead of this curve, our creditors will.

Let's finish off with Kenya Inc. CS Rotich announced plans to repeal a law that caps commercial interest rates. The Rate Cap Law has seen private sector credit growth crash from around 20% to close to 0%.

The SME sector [which has had to bear the brunt of the private credit growth slump and is the engine room of our economy] needs credit like a shot in the arm. Rotich dialled up excise duty on mobile money transfers by two per cent and introduced a "Robin Hood" Tax for transfers above Sh500,000.

He projected tax revenues to rise by 17.5 per cent to Sh1.9 trillion ($18.81 billion), equivalent to 20 per cent of GDP. A year on year increase of 17.5% in the tax take is a bold call. Existing taxpayers have been squeezed until the "pips are squeaking".

This is now a zero sum game. In order to get the show back on the road and to get back to faster GDP growth, because growth is a silver bullet, we should be cutting taxes and casting the tax net wider.

Aly-Khan is a financial analyst

Harvard Business Review

TIP OF THE DAY

GOING ON VACATION? TRY SOMEWHERE NEW

It's tempting to default to the same vacation each year: a familiar beach town, your favorite city, that resort the kids loved. But traveling can be an opportunity for personal growth, especially when you venture outside your comfort zone. By spending time in unfamiliar cities or countries, you become more comfortable with feelings of discomfort and more confident in your ability to navigate ambiguous situations, which enhances your emotional agility. Research has shown that people who travel to other countries develop a greater tolerance and trust of strangers, which alters their attitudes toward not only strangers but also colleagues and friends, resulting in greater empathy. And going to new places can boost your creativity. Experiencing other cultures, having international friendships, and studying languages are all linked to unconventional problem solving. As you're making summer plans, consider taking a trip to someplace new — and encourage your colleagues to do the same.