



REPUBLIC OF KENYA

May 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF KENYA

In the context of the Request for Disbursement under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 6, 2020, following discussions that ended on April 8, 2020, with the officials of The Republic of Kenya on economic developments and policies underpinning the IMF arrangements under the RCF. Based on information available at the time of these discussions, the Staff Report was completed on April 30, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the Staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for The Republic of Kenya

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of The Republic of Kenya

* Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Approves a US\$739 Million Disbursement to Kenya to Address the Impact of the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF approved the disbursement of US\$739 million to be drawn under the Rapid Credit Facility to support the authorities' response to the COVID-19 pandemic.
- The COVID-19 pandemic is taking a serious toll on the Kenyan economy, significantly reducing growth, creating fiscal and external financing needs.
- It is important that the authorities resume their fiscal consolidation plans to reduce macroeconomic vulnerabilities once the crisis abates.

Washington, DC – May 6, 2020 The Executive Board of the International Monetary Fund (IMF) today approved the disbursement of SDR542.8 million (100 percent of quota, about US\$739 million) to be drawn under the Rapid Credit Facility (RCF). This will help to meet Kenya's urgent balance of payments need stemming from the outbreak of the COVID-19 pandemic.

The impact of COVID-19 on the Kenyan economy will be severe. It will act through both global and domestic channels, and downside risks remain large. While the authorities have taken decisive action to respond to the pandemic's health and economic impacts, the sudden shock has left Kenya with significant fiscal and external financing needs. Authorities have committed to resume their fiscal consolidation plans once the crisis abates to reduce debt vulnerabilities.

The RCF will help the authorities to address those needs. It will allow them to maintain an adequate level of international reserves and help provide the budget financing needed to respond to the pandemic.

The IMF is in close contact with the Kenyan authorities and stands ready to provide policy advice and further support, as needed.

At the conclusion of the Board discussion, Mr. Tao Zhang, Deputy managing Director and Acting Chair, stated:

"The COVID-19 pandemic has delivered a large economic shock to Kenya. The pandemic has impacted nearly all facets of the economy—particularly tourism, transport, and trade—and led to urgent balance of payments and fiscal financing needs.

"Emergency financing under the RCF will deliver liquidity support to help Kenya cover its balance of payments gap this year. It will provide much-needed resources for fiscal interventions to safeguard public health and support households and firms affected by the crisis. It will also catalyze necessary financing from other donors.

“A pause in the authorities’ fiscal consolidation plans to accommodate COVID-19-related measures is appropriate. These measures should be temporary and well-targeted. Once the crisis abates, it is critical that the authorities resume their pursuit of a growth-friendly medium-term fiscal adjustment, including raising revenues as a share of GDP, to reduce debt vulnerabilities.

“The Central Bank of Kenya (CBK) has taken various measures to maintain sufficient liquidity in the financial sector. It should continue to stand ready to further support the economy and the financial sector’s health, as necessary, while ensuring that policy decisions are data-driven. The CBK should also continue to allow the exchange rate to act as a shock absorber.

“To ensure that COVID-19 related resources are used for their intended purpose, the authorities plan to conduct independent post-crisis auditing of COVID-19 related expenditures and publish the results.”

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)

<https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

IMF Executive Board calendar

<https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>



KENYA

April 30, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context: Kenya is facing a pronounced economic slowdown and an urgent balance of payments need owing to the COVID-19 pandemic. Kenya's economy was performing well prior to the global shock with accelerating growth, contained inflation and current account deficits, and a resumption of fiscal adjustment to tackle rising public debt vulnerabilities. The COVID-19 pandemic is expected to significantly reduce growth in 2020, with a large impact on agricultural exports, services, remittances, and the financial account thus weakening the external position. The authorities are taking measures to combat the spread of the virus and mitigate its adverse effects on the economy and vulnerable segments of the population. Staff expects that additional spending and lower revenue collection would entail a pause in fiscal consolidation.

Request for IMF support: The authorities have requested financial assistance under the Rapid Credit Facility exogenous shock window to cope with the impact of the COVID-19 pandemic. Staff supports the request for a disbursement of SDR 542.8 million, equivalent to 100 percent of quota based on urgent balance of payments and fiscal financing needs.

Policy Discussions: Staff supports the authorities' plan to pause fiscal adjustment in the near term to accommodate COVID-related fiscal measures. Staff recommends that tax relief measures in response to the shock be made temporary and reversed once the crisis has passed. Staff projects a fiscal financing gap in 2019/20 which will be partially filled by the RCF disbursement. Staff advises that accommodative monetary policy continue to support growth during the shock. The Central Bank of Kenya (CBK) should, however, continue to closely track inflation developments and keep its policy decisions data-dependent. The CBK should also continue to allow the exchange rate to act as a shock absorber.

Approved By
**Zeine Zeidane (AFR) and
 Zuzana Murgasova (SPR)**

An IMF team consisting of B. Clements (Head), M. Goodman (incoming mission chief), M. A. Diouf, J. Weiss (all AFR), M. Bazarbash (MCM), Y. Lu (SPR), and T. Rasmussen (IMF Resident Representative) held discussions with the Kenyan Authorities by videoconference meeting on April 9, 2020.

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CONTEXT

1. Prior to the COVID-19 shock, Kenya's economy was performing well, though with rising public debt vulnerabilities. Real GDP growth is estimated 5.4 percent in 2019, while inflation and current account (CA) deficits were contained. The interest rate caps imposed in September 2016 were repealed in November 2019, opening the gate for stronger growth of credit and economic activity. Prior to the global shock, growth was expected to rise to 5.8 percent in 2020. Public debt, while expected to decline as a share of GDP, would remain at relatively high levels, owing to a decline in revenues as a share of GDP and large infrastructure investments in recent years.

2. The COVID-19 shock has given rise to urgent balance of payments (BOP) financing needs in Kenya. The pandemic is having a pronounced negative impact on the economy, including sharp declines in the services sector and agricultural exports, as well as severe disruptions of supply chains. Staff projects that real GDP growth will drop to 0.8 percent in 2020. With international financial markets effectively closed to emerging market and frontier issuers such as Kenya, staff expects an external financing gap of about \$2.1 billion (2.1 percent of GDP) in 2020. Staff also expects a fiscal financing gap owing to COVID-related spending and lower fiscal revenues.

3. The authorities have requested a disbursement under the RCF with total access of 100 percent of quota (SDR 542.8 million, equivalent to US\$743.9 million). The last Article IV discussion was completed in June 2018 and Kenya's precautionary SBA expired in September 2018. A mission took place during February 19–March 3, 2020 to conduct combined Article IV discussions and discussions for a new precautionary Fund-support arrangement. Good progress was made towards such an arrangement and the authorities continue to view such a program as critical. In the meantime, the authorities requested an RCF to help address their urgent BOP and fiscal financing needs.

MACROECONOMIC IMPACT OF THE COVID-19 PANDEMIC, OUTLOOK, AND RISKS

A. Macroeconomic Developments Before the Pandemic

4. Kenya's macroeconomic fundamentals were sound before the pandemic and the authorities' policy initiatives were directed at raising medium-term growth and reducing vulnerabilities.

- Real GDP growth remained healthy in 2019 at an estimated 5.4 percent, as steady performance in services compensated for adverse weather that slowed agriculture production. Inflation averaged 5.2 percent in 2019, within the Central Bank of Kenya's (CBK's) target range. Credit growth has improved since the removal of lending caps (7.7 percent y/y in February 2020).

- Staff estimates that the CA deficit narrowed to 4.5 percent of GDP in 2019, compared to 5.0 percent of GDP in 2018, mainly reflecting lower imports of capital goods, food, and oil. Foreign exchange reserves stood at US\$8 billion as of March 27, 2020 (about 4.4 months of 2021 imports), helped by a US\$2.1 billion Eurobond issuance in May 2019.
- The banking system was liquid, well-capitalized and profitable. Nonperforming loans (NPLs), however, remain high at 12.7 percent of loans at end-February 2020. Interbank market segmentation had diminished, with better access for small- and medium-sized banks.
- The fiscal deficit widened in 2018/19 to 7.8 percent of GDP, owing to a disappointing revenue outturn and higher recurrent expenditure. Similar to previous years, public investment execution was less than budgeted. Due to inadequate control of spending commitments, payment arrears of about 0.6 percent of GDP accumulated. Gross public debt rose to 62.4 percent of GDP in June 2019. The authorities' fiscal framework prior to the pandemic, as described in their Budget Policy Statement (BPS), planned ambitious fiscal consolidation in 2019/20, with a deficit reduction of about 1.5 percent of GDP, to 6.3 percent of GDP. The consolidation was predicated on a combination of revenue measures (including a one-off transfer of 0.7 percent of GDP of dividends from SOEs), spending cuts, and tight expenditure controls. Given shortfalls in revenues staff was expecting a deficit outturn of 6.7 percent of GDP.
- The authorities envisaged further consolidation over the medium-term with a deficit decreasing to 4.9 percent of GDP in 2020/21 and to about 3 percent of GDP by 2022/23, thanks to revenue measures and spending rationalization. They also planned to clear all validated payment arrears of the central government by 2020/2021.
- The CBK had loosened monetary policy following the removal of the interest rate cap. It had cut its policy rate (CBR) by 50 bps in November 2019 and another 25 bps in January 2020 (to 8.25 percent) in light of the absence of demand pressures and moderate inflation.

B. Economic Impact of COVID-19

5. The pandemic has triggered large negative economic effects and an urgent BOP need.

- *Staff projects that real GDP growth will drop to 0.8 percent in 2020, 5 percentage points below the pre-COVID baseline.* The main channels of impact include (i) a sharp slowdown in the traditionally resilient services sector (concentrated in tourism, transport, and wholesale/retail trade), (ii) severe disruptions of supply chains and (iii) lower agricultural exports (in particular tea and flowers) and activity in the agro-processing sector due to transport disruptions and reduced global demand. On the demand side, domestic activity will slow owing to social distancing and lower remittances (sizeable at about 3 percent of GDP in 2019). Staff expects growth to remain modestly positive due to continued production for domestic consumption in the large agriculture sector; a low dependence on exports relative to African peers (although the large export shock will still hurt growth); and much lower energy prices due to external factors.

- *The external impact would be strongest on tourism receipts and the financial account. The current account deficit is expected to narrow to 4.4 percent of GDP in 2020, as the reduction in oil imports (owing largely to lower global energy prices) and lower capital goods imports more than outweigh a sharp contraction in tourism receipts (about 2 percent of GDP in 2019), the decline in goods exports, and lower remittances (two-thirds of remittances come from the UK and the US). The shock to emerging market and frontier economies' access to international capital markets also hit Kenya and is expected to severely constrain new issuance or contracting of new syndicated loans for the remainder of 2020. The resulting BOP financing need is assessed to be some \$2.1 billion in 2020 (2.1 percent of GDP) (see Text Table). Reflecting the US dollar's strong appreciation against most other currencies, the shilling depreciated by 5.4 percent between February 28 and March 24.*

Kenya: Projected External Financing Requirements and Sources, 2020				
	Pre-shock (February 2020)		After shock (April 2020)	
	USD million	% of GDP	USD million	% of GDP
Current account	-4,919	-4.5	-4,520	-4.4
Trade balance	-11,451	-10.6	-8,777	-8.6
Exports of goods and services	13,055	12.0	9,514	9.3
of which: coffee, tea, and horticulture	2,868	2.6	1,992	1.9
of which: tourism	1,952	1.8	293	0.3
Imports of goods and services	22,671	20.9	17,713	17.3
of which: oil imports	3,512	3.2	1,793	1.8
of which: imports of capital goods	4,925	4.5	4,172	4.1
Primary income balance	-1,197	-1.1	-1,471	-1.4
Secondary income balance	5,894	5.4	5,150	5.0
of which: remittances	3,244	3.0	2,729	2.7
Capital and financial accounts	5,555	5.1	2,375	2.3
of which:				
Net foreign direct investments	1,947	1.8	751	0.7
Government net borrowing	2,767	2.6	1,716	1.7
Gross financing	4,485	4.1	3,228	3.2
of which: commercial borrowing	2,012	1.9	60	0.1
Principal payment	1,718	1.6	1,512	1.5
Financing gap (excess of financing -)	-636	-0.6	2,145	2.1
Additional financing sources				
IMF (net)	-136	-0.1	612	0.6
Disbursements (RCF)			744	0.7
Repayments	136	0.1	132	0.1
World Bank			300	0.3
Reserve accumulation (increase -)	-500	-0.5	1,233	1.2
Remaining financing gap	0	0	0	0

Sources: Kenyan authorities and IMF staff estimates and projections.

- Staff assesses that banks' asset quality could deteriorate as the trade sector accounts for the largest share of bank loans and the impact of COVID-19 on small and medium-sized enterprises (SMEs) will impact their loan performance.
- Staff expects a large drop in fiscal revenue and sizeable additional expenditures to fight the pandemic and limit its impact on the economy and the vulnerable (see Box 1).

C. Medium-Term Outlook and Risks

6. Kenya's medium-term outlook is positive. Assuming a gradual recovery of the global economy through 2020–21, staff expects that growth would improve to 5.5 percent in 2021 and 6.1 percent in 2022 and decline to 5.8 percent in 2023 and remain at this rate over the medium-term. Economic activity would be supported by the eventual rebound of private sector credit growth and private investment as the COVID-19 crisis wanes. Growth could be even higher with additional reforms that would raise revenues and support higher public investment and priority social spending. Inflation and the current account deficit would remain contained. Staff assume that over the medium term the authorities would pursue the previously-planned fiscal consolidation to reduce

debt vulnerabilities. The outlook continues to be predicated on Kenya's resumption of market access once global financial conditions normalize.

7. Risks are tilted to the downside. Risks include a deeper or more prolonged duration of the global pandemic or its spread in Kenya that could further deteriorate the outlook and put severe strains on balance sheets of the public sector, households and firms. Domestic risks include a stronger-than-expected negative impact of the locust invasion on agriculture production, weaker remittances, and a more severe-than-expected impairment of bank balance sheets due to the expected 2020 slowdown, which would limit banks' ability to support economic growth. All of these risks could lead to lower growth in 2020 and a smaller rebound in activity in 2021 than currently projected by staff.

8. The authorities viewed the outlook as more positive than staff. They expected growth in 2020 to be around 3 percent, buoyed by the agricultural sector and some services, such as communication and information technology. At the same time, they noted the high level of uncertainty, at the current juncture, with all macroeconomic forecasts. They envisaged that full implementation of their reform and development program would lead to growth of at least 6½ percent over the medium term and beyond. They noted that Kenya's well diversified economy, including its exports, made it more resilient than many other economies.

ECONOMIC POLICIES

Key policy objectives focus on (i) appropriate measures to fight against the spread of COVID-19 and support economic activities and the population, (ii) accommodative monetary policy, and (iii) fostering financial stability, against the backdrop of the authorities' medium-term agenda for growth-friendly fiscal consolidation to reduce debt vulnerabilities.

A. Response to the COVID-19 Pandemic

9. The authorities have set up an inter-ministerial National Emergency Response Committee in February 2020 to lead the country's response to COVID-19 (Box 1, Text Table).

The Committee has successfully undertaken a wide range of measures to prevent the spread of COVID-19 and protect the population's health. As a result, the number of COVID-19 cases has been modest at 320 persons as of April 23. The economic impact, however, has been large, and the authorities have taken significant steps to mitigate the impact of the shock on businesses and vulnerable households prone to poverty. Parliament was set to pass in late-April a supplementary budget for 2019/20 that reflects additional COVID-19 related expenditure in health and other areas of about 0.4 percent of GDP in 2019/20 and tax relief of a similar magnitude. The authorities are also reprogramming previously planned

Kenya: Budgetary Implications of COVID-19, 2019/20		
	KES billion	Percent of GDP
COVID-19 interventions in Suppl. Budget	40.1	0.39
Health	4.9	0.05
Social protection cash transfers	10.0	0.10
VAT refunds clearance	10.0	0.10
Pending bills clearance	13.1	0.13
Food relief and other	2.1	0.02
Other projected expenditure requirements	64.7	0.63
Tax relief	42.9	0.42
CIT rate cut	13.7	0.13
PIT rate cut and threshold increase	15.4	0.15
VAT rate cut	13.8	0.14
Turnover tax rate cut	0.1	0.00
Revenue underperformance due to COVID-19	86.6	0.85
Total impact without offsetting measures	234.3	2.30
Source: IMF estimates.		
¹ In percent of post-shock GDP.		

health expenditure to support their COVID-19 response. Nevertheless, staff estimates that an additional 0.6 percent of GDP in spending could be required above what has allocated so far, including to protect livelihoods of those whose incomes have suffered from the economic disruption. The CBK transferred financial gains of KES 7.4 billion from the recent currency exchange to the Treasury to support the budget.

Box 1. Authorities' Response to COVID-19

The immediate response focused on measures to contain the spread of the disease and ramp up the capacity of the health system. Measures to this effect have included, among others, suspension of all international passenger flights, establishment of isolation facilities, quarantine of at-risk persons, closure of schools and universities, imposition of social distance requirements and a nighttime curfew, and restrictions on movement into and out of the most affected counties. Actions have been coordinated by an inter-ministerial committee established in late February and have been communicated in daily press briefings.

Economic measures:

- *The new supplementary budget reflects accommodation of additional expenditure relative to the previous budget and fiscal measures to protect vulnerable groups:*
 - COVID-19 spending interventions of KES 40 billion (0.4 percent of GDP) in 2019/20. Includes KES 5 billion in the health sector, as well as reallocation of previously planned expenditure, most of which will be covered by a USD 60 million support package from the World Bank that also covers 2020/21; KES 13 billion to expedite clearance of unpaid bills with suppliers; KES 10 billion to fast-track VAT refunds; and KES 10 billion for cash transfers to the elderly, disabled, and low-income households.
 - A package of tax measures that includes full income tax relief for persons earning below the equivalent of \$225 per month; reduction of the top pay-as-you-earn rate from 30 to 25 percent; reduction of the standard corporate income tax rate from 30 to 25 percent; reduction of the turnover tax rate on small businesses from 3 to 1 percent; reduction of the standard VAT rate from 16 to 14 percent; and elimination of a long list of exemptions in the VAT and corporate income tax. The annual cost of these tax relief measures is estimated at 1.7 percent of GDP. The elimination of tax exemptions is not expected to produce significant additional revenue in 2019/20 but is intended to over time make the package largely revenue neutral.
 - Relaxation of the fiscal deficit from the previously targeted 6.3 percent of GDP to 7.8 percent of GDP. The new deficit target reflects the measures above as well as reduced revenue due to reduced economic activity and savings from realignment of capital expenditures and cancellation of low-priority projects.
- Monetary stimulus and liquidity support by Central Bank of Kenya (CBK), including reduction of the policy rate to 7.25 percent from 8.25 percent, reduction of the reserve requirement to 4.25 percent from 5.25 percent, extension of the tenor on REPO agreements, and temporary granting of flexibility to banks on classification and provisioning of loans (until March 2021) restructured due to the pandemic.
- Support by commercial banks and mobile network operators under the guidance of CBK, including extending flexibility to borrowers on loan terms based on individual circumstances arising from the pandemic and waiving or reducing charges on mobile money transactions to disincentivize use of cash.

10. Staff supports the authorities' plan to pause fiscal adjustment to accommodate COVID-related fiscal measures but urges that tax relief measures be made temporary. Taking

into account COVID-related impacts and responses and changes in nominal GDP, staff expect total revenue and grants in 2019/20 to be 0.6 percent of GDP lower and total expenditure be 0.8 percent of GDP higher than projected in mid-February. The increase in spending would have been even larger if not for a projected 0.3 percentage point of GDP reduction in capital spending to limit the impact on the overall deficit. As a result, the fiscal deficit compared to 2018/19 is expected to expand by 0.8 percent of GDP to 8.6 percent of GDP in 2019/20. A fiscal financing gap is expected and would be closed by additional net domestic financing—including drawing down government deposits utilizing unused proceeds from the Eurobond issuance of 2019, additional World Bank financing (0.3 percent of GDP), and by the RCF disbursement (0.8 percent of GDP) (Text Table). The

Kenya: Central Government Financial Operations, 2018/19–2019/20					
	2018/19 Proj. (KES billion)	2019/20		% of GDP	
		Pre-shock ²	Proj.	Pre-shock ²	Proj.
Revenues and grants	1,691	2,012	1,883	19.1	18.5
Of which Tax revenue	1,401	1,557	1,416	14.8	13.9
Nontax revenue	271	422	422	4.0	4.1
Expenditure and net lending	2,406	2,714	2,765	25.8	27.1
Of which Current expenditure	1,857	2,104	2,209	20.0	21.7
Development and net lending	549	610	556	5.8	5.5
Overall balance¹	-721	-702	-882	-6.7	-8.6
Financing¹	721	702	567	6.7	5.6
Financing gap (+ = shortfall)	0	0	314	0.0	3.1
Additional financing	0	0	314	0.0	3.1
Additional external financing					
IMF (RCF disbursement)	0	0	77	0.0	0.8
World Bank	0	0	31	0.0	0.3
Additional net domestic financing	0	0	206	0.0	2.0
<i>Memorandum item</i>					
Nominal GDP	9,303	10,511	10,196	...	...

Sources: Kenyan authorities and IMF staff calculations.

¹ Includes cash adjustment in 2018/19.

² As of February 2020. The financing projections included KES 207 billion from commercial borrowing that is now assumed to not be available due to global financing conditions.

authorities are actively pursuing additional financing from the World Bank and African Development Bank. The authorities should also consider further increases in one-off spending, if needed, to address health care needs and mitigate the impact of the crisis on poor households. Going forward, to support the revenue effort over the medium term, staff recommends that the tax rate reductions for the VAT, turnover tax, and personal income tax be reversed once the crisis has passed.

11. Staff project that the fiscal deficit will decline to 7.8 percent of GDP in 2020/21.

Current outlays will be about 1.4 percent of GDP higher compared to pre-crisis projections, while the dampening effects of the COVID crisis on revenue would lead to a higher deficit than previously planned by the authorities. Staff projections assume that about 75 percent of the fiscal cost of the recently announced tax relief measures will be compensated for by reduced tax exemptions in FY20/21, with the remainder coming in the next 2–3 years, in accordance with the authorities' aim to make the recent tax changes revenue neutral. For 2021/22 and beyond, the authorities envisage further fiscal adjustment based on improvements in public procurement and public expenditure management that would allow for reductions in spending as a share of GDP without adversely affecting the quality of public services or achievement of their Big 4 Agenda for universal health care, agriculture, housing, and manufacturing. Staff recommend that revenue measures also be part of the medium-term fiscal consolidation strategy, with the aim of restoring and then raising the

revenue-to-GDP ratio above that prevailing before the COVID crisis. Improvements in revenue administration would also help strengthen compliance and the revenue effort.

12. Staff recommends that the authorities prepare a contingency plan to address a potential deepening of the shock. Given Kenya's limited fiscal space, additional spending for health and social protection in 2020/21 and beyond what is incorporated in the baseline would need to be financed by a reduction in nonpriority spending or the introduction of revenue measures. A list of lower-priority public investment projects should be identified in case that need arises.

13. Accommodative monetary policy could continue to support growth during the shock, but inflation dynamics should be closely monitored. The CBK lowered the CBR to 7.25 percent and cut the reserve ratio by 100 bps to 4.25 percent in response to COVID-19. With headline inflation currently near the mid-point of the CBK's target range, core inflation moderate, and an expected large negative output gap, monetary policy could continue to counterbalance the pandemic-related slowdown. However, keeping in mind the CBK's primary mandate of price stability, the central bank should continue to closely track inflation developments and keep its policy decisions data-dependent. Continued steps to strengthen the monetary policy framework, as previously planned, will help bolster the CBK's capacity to respond to negative shocks. The CBK should continue to allow the exchange rate to act as shock absorber. In light of the economic downturn, staff recommends close monitoring of NPLs and supports the CBK's recent initiatives to contain possible spikes in NPLs (e.g., measures encouraging lenders to extend loan repayment schedules) and increase supervisory capacity. In the interest of transparency and ensuring that NPLs and potential losses are measured as accurately as possible, staff advises against modifying loan classification rules and welcomes the authorities' plan to sunset these by March 2021.

14. Safeguarding Fund and other financial assistance should ensure that such assistance is used for the very urgent purpose of resolving the current crisis. To that end, the authorities should undertake independent audits of samples of crisis mitigation spending and publish the results of these audits. They should publish documentation on related procurement contracts on the government's website, together with ex-post validation of delivery along with the name of awarded companies and the name of their beneficial owners. Once the crisis abates, the authorities should introduce legislation to improve their capacity to detect illicit enrichment and to address conflicts of interest in line with international best practices and Fund advice; and improve fiscal transparency by expanding the quality and coverage of government finance statistics and commencing quarterly reporting on government fiscal outturns and annual reporting for the consolidated non-financial public sector, including public corporations.

MODALITIES OF SUPPORT

15. Staff proposes to provide support of 100 percent of quota (SDR 542.8 million) under the RCF exogenous shock window to cover a portion of Kenya's external and fiscal financing needs.

16. Kenya meets the eligibility requirements for support under the RCF.

- It faces an urgent BOP need, which, if not addressed, would result in immediate and severe economic disruption.
- Discussions on a precautionary Fund-supported arrangement would take additional time to conclude given the current uncertainty regarding the duration and scale of the COVID-19 impact. Given the urgency of BOP needs and the inability to conclude a new Fund-supported arrangement without delays, support under the RCF is warranted.
- Kenya is assessed as having sustainable debt and capacity to repay the Fund (see Table 6). Incorporating the impact of the global shock from COVID-19 in Kenya's debt sustainability analysis (DSA) results in a shift in the assessment compared to the 2018 DSA to high risk of debt distress, and the authorities plan to prioritize use of available concessional financing. The planned return to a fiscal consolidation path after the current COVID-19 crisis abates will reduce debt-related risks.
- Staff has confidence that the authorities will cooperate with the Fund and pursue economic policies appropriate for addressing the impact of the COVID-19 shock.
- Kenya's capacity to repay the Fund is adequate. The total amount of outstanding credit from the Fund, once the RCF is disbursed, will amount to SDR705.9 million, or 130 percent of quota, at end-2020 and steadily decline thereafter (see Table 6).¹ Total obligations to the Fund would be at 12.3 percent of gross international reserves, 10.2 percent of exports, and 0.9 percent of GDP in 2020 and decline steadily thereafter. Associated servicing risks would be mitigated by expected increased access to concessional financing. The materialization of downside risks, as described in paragraph 7—including worse-than-expected growth and weaker fiscal adjustment—could add further stress to Kenya's capacity to repay the Fund. However, given the likelihood of continued access to concessional financing in such a scenario, and in light of Kenya's strong track record of servicing debts to the Fund and other creditors, Kenya's capacity to repay the Fund would remain adequate.

17. Kenya does not currently have an IMF arrangement. Access of 100 percent of quota is within the applicable access limits under the PRGT and would not trigger high access procedures under the RCF.

18. The proposed access of 100 percent of quota is about 34.6 percent of the BOP financing gap. Remaining BOP needs are expected to be filled by support from the World Bank and a drawdown of FX reserves.

19. The RCF will be disbursed to the National Treasury's account at the CBK to provide financing for COVID-19-related spending. Disbursement under an RCF would help cover urgent financing needs for the 2019/20 budget and cushion the effects of COVID-19 by reducing the magnitude of spending cuts needed to accommodate additional spending.

¹ In light of disruptions to global financial flows, staff assesses that Kenya currently does not have substantial prospective market access, and consistent with the current DSA rating, Kenya does not qualify as a presumed blender and may access PRGT resources exclusively.

20. A memorandum of understanding between the CBK and the National Treasury ensuring repayment of Kenya's obligations to the Fund has been signed. Given that the financing under the RCF will be used in its entirety to provide budget support, a memorandum of understanding has been signed between the National Treasury and the CBK regarding their respective roles and responsibilities for servicing financial obligations to the Fund. The CBK will commit to provide Fund staff with the most recently completed external audit reports and has authorized the external auditors to hold discussions with staff. In addition, the CBK will also implement the recommendations of the September 2019 update of safeguards assessment and provide timely updates on the status.

STAFF APPRAISAL

21. Kenya is facing a pronounced economic slowdown and an urgent balance of payments need owing to the COVID-19 pandemic. Kenya registered its first case of COVID-19 on March 12, 2020. Beyond the health risks facing all Kenyans, many vulnerable households will likely be pushed into poverty, absent adequate support. The authorities are taking resolute action to combat the spread of the virus and mitigate adverse effects on the economy and vulnerable segments of the population. The pandemic is expected to significantly lower growth in 2020, with large impacts on services and agricultural exports, remittances, and the financial account.

22. The RCF would help cover fiscal costs and external financing gaps. Staff expects that with international capital markets effectively closed for most emerging market and frontier borrowers, Kenya would face an external financing gap of about \$2.1 billion (2.1 percent of GDP) in 2020. Additional spending and reduced fiscal revenue collection would lead to a fiscal financing gap as well. Staff supports the authorities' plan to pause fiscal adjustment in order to mount a strong response to the COVID-19 crisis; but urges that tax relief measures be made temporary. The authorities remain committed to fiscal consolidation in 2020/21 and over the medium term to reduce macroeconomic vulnerabilities. This will help contain debt vulnerabilities that have materialized due to the current global shock and safeguard Fund resources. Staff and the authorities continue discussions, initiated in February-March 2020, on the outlook for 2021 and beyond on policies that could further strengthen economic performance over the medium term and form the basis for an agreement under a potential Fund-supported arrangement. To help achieve the objective of consolidation, staff advise implementing measures to raise revenues as a share of GDP over the medium term.

23. Staff support the authorities' request for an RCF of 100 percent of quota (SDR 542.8 million). The disbursement will provide much needed emergency funding to the budget and will support foreign exchange reserves in the wake of the urgent balance of payments gap generated by the COVID-19 pandemic.

Table 1a. Kenya: Selected Economic Indicators, 2016/17–2024/25¹

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
	Actual			Projected						
	(Annual percentage change, unless otherwise indicated)									
Output, prices, and exchange rate										
Real GDP	5.5	5.5	6.0	2.9	3.1	5.8	5.9	5.8	5.8	
GDP deflator	9.2	5.2	3.1	6.5	6.7	5.1	5.2	5.2	5.1	
CPI (period average)	8.1	5.2	5.2	5.0	5.0	5.0	5.0	5.0	5.0	
CPI (end of period)	9.2	4.3	5.7	5.0	5.0	5.0	5.0	5.0	5.0	
Core inflation (period average) ²	3.4	4.2	3.4	3.3	4.3	4.7	4.9	5.0	5.1	
Exports volume	1.9	-0.5	1.6	-5.6	-1.4	9.7	7.8	8.0	8.0	
Imports volume	-1.9	-0.2	-3.6	-0.9	5.9	11.2	7.3	6.8	6.5	
Exchange rate (Kenyan shilling/US\$)	102.5	102.4	101.3	.	.	.	.	.	.
Real effective exchange rate (depreciation, -)	8.1	-0.1	8.2	.	.	.	.	.	.
Money and credit										
Broad money (M3)	5.3	10.4	9.2	.	.	.	.	.	.
Reserve money	2.4	7.4	2.5	.	.	.	.	.	.
Credit to non-government sector	1.9	4.3	5.2	.	.	.	.	.	.
Policy rate	10.0	9.5	9.0	.	.	.	.	.	.
M3/GDP (percent)	38.5	38.3	38.3	.	.	.	.	.	.
NPLs (percent of total gross loans)	9.9	10.9	11.9	.	.	.	.	.	.
(Percent of GDP, unless otherwise indicated)										
Central government budget										
Total revenue, grants and unidentified tax policy measures	18.6	18.2	18.2	18.5	17.6	17.8	17.9	18.2	18.2	
Tax revenues	15.9	14.8	15.1	13.9	13.7	14.2	14.5	14.8	14.8	
Non-tax revenues	2.4	3.1	2.9	4.1	3.5	3.2	3.1	3.1	3.1	
Grants	0.3	0.3	0.2	0.4	0.4	0.4	0.3	0.3	0.3	
Expenditure	27.5	25.2	25.9	27.1	25.5	24.6	23.7	23.0	22.0	
Current	19.2	19.7	20.0	21.7	20.4	19.4	18.3	17.8	17.2	
Capital	8.3	5.5	5.9	5.4	5.0	5.2	5.5	5.3	4.9	
Primary balance	-5.6	-3.6	-3.7	-4.4	-3.8	-2.5	-1.7	-0.6	0.4	
Overall balance	-8.9	-7.4	-7.8	-8.6	-7.8	-6.8	-5.8	-4.9	-3.9	
Excluding SGR-related spending	-7.4	-6.7	-6.9	-8.1	-7.7	-6.8	-5.8	-4.9	-3.9	
Excluding grants	-9.2	-7.7	-8.0	-9.1	-8.2	-7.2	-6.2	-5.2	-4.2	
Net domestic borrowing	4.1	3.3	3.3	5.4	4.1	4.0	3.6	3.3	2.2	
Public debt										
Public gross nominal debt	57.4	59.2	62.4	64.7	68.2	69.3	69.2	68.2	66.3	
Public net nominal debt	51.8	53.2	57.0	61.3	64.8	65.9	65.8	64.8	62.9	
Public gross debt, PV	51.8	54.2	57.1	59.4	62.3	63.6	63.7	62.9	61.3	
Public net debt, PV	46.1	48.2	51.6	56.0	58.9	60.2	60.3	59.4	57.8	
Gross domestic debt	27.5	29.1	29.9	31.3	32.9	34.0	34.5	34.6	33.7	
Gross external debt	29.9	30.1	32.5	33.4	35.4	35.4	34.8	33.6	32.7	
Investment and saving										
Investment	18.0	15.2	15.5	14.7	15.3	17.2	18.0	18.3	17.9	
General government	8.4	5.5	5.9	5.4	5.0	5.2	5.5	5.3	4.9	
Nongovernment	9.6	9.7	9.7	9.3	10.3	12.0	12.5	13.0	13.0	
Saving	13.6	10.5	11.3	10.2	10.9	12.9	13.7	14.0	13.5	
General government	-0.8	-1.8	-1.8	-3.5	-3.2	-2.0	-0.7	0.1	0.7	
Nongovernment	14.4	12.2	13.1	13.8	14.1	14.9	14.4	13.9	12.8	
External sector										
Exports (goods and services)	13.7	13.4	12.6	10.7	10.0	10.7	10.8	10.9	10.9	
Imports (goods and services)	-22.5	-23.0	-21.6	-19.3	-18.2	-19.0	-19.1	-19.2	-19.2	
Current account balance (including grants)	-4.4	-4.8	-4.2	-4.5	-4.3	-4.2	-4.2	-4.3	-4.3	
Gross international reserves										
In billions of US\$	8.6	8.9	9.5	8.9	7.2	7.9	8.3	9.3	10.1	
In months of next year imports	5.4	5.4	6.0	5.6	4.0	4.0	3.9	4.0	4.0	
Memorandum items:										
GDP at current market prices (Ksh billion)	7,675	8,518	9,303	10,196	11,224	12,472	13,893	15,462	17,203	
GDP per capita (nominal US\$)	1,607	1,760	1,880	1,974	2,051	2,148	2,272	2,400	2,535	

Sources: Kenyan authorities and IMF staff estimates and projections.

¹ Fiscal years are from July 1 to June 30.² Excluding food and fuel.

Table 1b. Kenya: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025	
	Actual			Projected						
	(Annual percentage change, unless otherwise indicated)									
Output, prices, and exchange rate										
Real GDP	4.8	6.3	5.4	0.8	5.5	6.1	5.8	5.8	5.8	
GDP deflator	10.9	2.4	4.0	8.5	5.0	5.1	5.2	5.1	5.1	
CPI (period average)	8.0	4.7	5.2	5.1	5.0	5.0	5.0	5.0	5.0	
CPI (end of period)	4.5	5.7	5.8	4.5	5.0	5.0	5.0	5.0	5.0	
Core inflation (period average) ¹	3.4	4.2	2.6	3.9	4.6	4.9	5.0	5.1	5.1	
Exports volume	-2.5	1.6	1.6	-12.8	11.7	7.9	7.8	8.2	7.8	
Imports volume	8.8	-8.5	1.6	-3.4	15.4	7.6	7.0	6.6	6.4	
Exchange rate (Kenyan shilling/US\$)	103.4	101.2	102.1	.	.	.	.	.	.
Real effective exchange rate (depreciation, -)	4.4	3.5	4.6	.	.	.	.	.	.
Money and credit										
Broad money (M3)	8.8	10.1	5.6	7.3	14.7	16.2	15.7	14.4	13.8	
Reserve money	6.7	12.1	-6.3	7.1	13.0	14.4	14.0	12.9	12.4	
Credit to non-government sector	2.5	2.4	7.1	3.4	9.3	14.5	13.5	14.0	15.0	
Policy rate	10	9	8.5	.	.	.	.	.	.
M3/GDP (percent)	37.1	37.5	36.2	35.5	36.8	38.3	39.8	40.9	41.9	
NPLs (percent of total gross loans)	10.6	12.0	12.0	.	.	.	.	.	.
	(Percent of GDP, unless otherwise indicated)									
Central government budget										
Total revenue, grants and unidentified tax policy measures	18.2	18.2	18.3	18.1	17.8	17.9	18.1	18.2	18.2	
Tax revenues	15.2	15.0	14.5	13.9	14.0	14.4	14.7	14.8	14.8	
Non-tax revenues	2.7	3.0	3.6	3.8	3.3	3.1	3.1	3.1	3.1	
Grants	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	
Expenditure	26.1	25.6	26.5	26.4	25.1	24.2	23.4	22.6	22.0	
Current	19.3	19.9	20.9	21.2	20.0	18.9	18.1	17.5	17.1	
Capital	6.8	5.7	5.7	5.2	5.1	5.3	5.4	5.1	4.9	
Primary balance	-4.5	-3.7	-4.0	-4.1	-3.1	-2.1	-1.1	0.0	0.4	
Excluding SGR-related spending	-3.4	-2.9	-3.3	-3.7	-3.0	-2.1	-1.1	0.0	0.4	
Overall balance	-7.8	-7.4	-8.2	-8.3	-7.3	-6.3	-5.3	-4.3	-3.8	
Excluding SGR-related spending	-6.8	-6.6	-7.5	-7.9	-7.3	-6.3	-5.3	-4.3	-3.8	
Excluding grants	-8.2	-7.6	-8.5	-8.7	-7.7	-6.7	-5.7	-4.6	-4.1	
Net domestic borrowing	3.6	3.3	4.4	4.8	4.1	3.8	3.5	2.7	2.3	
Public debt										
Public gross nominal debt	56.9	60.2	61.7	66.7	69.1	69.9	69.8	68.5	66.7	
Public net nominal debt	49.3	54.5	57.8	61.9	64.1	65.0	65.4	64.6	62.5	
Public gross debt, PV	51.8	56.6	57.6	61.3	63.4	63.9	63.6	62.2	60.4	
Public net debt, PV	44.2	50.8	53.6	56.4	58.4	59.0	59.1	58.3	56.3	
Gross domestic debt	28.1	29.6	30.2	33.7	35.1	35.8	35.6	34.7	34.1	
Gross external debt	28.8	30.6	31.5	33.0	34.0	34.2	34.2	33.8	32.6	
Investment and saving										
Investment	16.9	15.0	15.7	13.7	17.1	17.3	18.4	18.1	17.9	
General government	6.7	5.7	5.7	5.2	5.1	5.3	5.4	5.1	4.9	
Nongovernment	10.2	9.3	10.0	8.5	12.0	12.0	13.0	13.0	13.0	
Saving	10.7	10.1	11.1	9.3	12.9	13.1	14.1	13.8	13.5	
General government	-1.3	-1.8	-2.7	-3.4	-2.6	-1.3	-0.3	0.4	0.8	
Nongovernment	12.0	11.9	13.9	12.7	15.5	14.4	14.4	13.3	12.8	
External sector										
Exports (goods and services)	13.2	13.2	12.3	9.3	10.7	10.7	10.8	10.9	10.9	
Imports (goods and services)	-24.2	-23.0	-21.4	-17.3	-18.9	-19.1	-19.2	-19.2	-19.2	
Current account balance (including grants)	-6.2	-5.0	-4.5	-4.4	-4.2	-4.2	-4.3	-4.3	-4.3	
Gross international reserves										
In billions of US\$	7.1	8.1	9.1	7.9	8.4	8.8	9.1	9.8	10.6	
In months of next year imports	4.2	4.8	6.2	4.6	4.4	4.3	4.1	4.1	4.1	
Memorandum items:										
GDP at current market prices (Ksh billion)	8,166	8,892	9,740	10,652	11,796	13,149	14,636	16,288	18,118	
GDP per capita (nominal US\$)	1,691	1,828	1,932	2,015	2,086	2,209	2,334	2,466	2,605	

Sources: Kenyan authorities and IMF staff estimates and projections.

¹ Excluding food and fuel.

Table 2a. Kenya: Central Government Financial Operations 2018/19–2024/25¹
(billions of Kenyan Shilling)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
	Prel.	BPS	Suppl II	Proj.	BPS	Proj.	BPS	Proj.
Revenues, grants, and unidentified tax policy measures	1,690.8	2,055.2	1,929.9	1,882.9	2,177.0	1,976.6	2,463.1	2,214.6
Revenues and grants	1,690.8	2,055.2	1,929.9	1,882.9	2,177.0	1,976.6	2,463.1	2,214.6
Tax revenue	1,400.6	1,591.2	1,437.5	1,416.2	1,743.2	1,542.8	2,018.6	1,770.1
Income tax	685.4	789.7	732.3	694.7	862.3	744.5	996.9	877.3
Personal income	392.4	431.2	395.4	374.7	479.0	392.2	569.9	485.8
Corporate income	292.0	358.5	336.9	320.1	383.2	352.3	427.0	391.5
Import duty (net)	107.7	115.9	93.4	102.0	126.5	105.7	147.7	123.1
Excise duty	194.3	238.5	201.2	223.4	258.0	259.5	272.0	288.4
Value-added tax	230.6	251.3	238.7	226.1	283.0	248.8	320.7	276.5
Domestic	182.6	195.9	171.9	170.0	213.4	184.2	281.3	204.8
Imports	270.5	422.2	447.8	422.2	390.9	390.9	398.5	398.5
Non-tax revenue	24.6	23.7	125.8	100.2	21.0	21.0	22.3	22.3
Investment income	171.8	158.1	73.0	73.0	92.5	104.7	116.9	116.9
Other	0.0	27.7	22.2	22.2	249.6	249.6	255.8	255.8
Ministerial and Departmental Fees (MAF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Railway Levy	19.7	41.8	44.6	44.6	42.8	42.8	46.1	46.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	13.3	3.0	32.9	32.9	34.9	34.9	46.9	46.9
Other grants	15.4	4.0	11.7	11.7	4.9	4.9	0.0	0.0
AMISON								
Expenditure and net lending	2,405.9	2,874.2	2,730.2	2,764.6	2,748.0	2,857.5	3,214.1	3,296.3
Recurrent expenditure	1,857.0	2,143.4	2,094.4	2,208.8	2,160.7	2,295.2	2,466.7	2,538.9
Transfer to counties	360.7	378.3	332.3	378.3	375.0	350.0	393.7	403.7
Interest payments	375.7	441.5	433.7	433.7	456.0	456.0	541.3	541.3
Domestic interest	272.0	290.5	301.8	301.8	308.4	308.4	371.0	371.0
Foreign interest due	103.7	150.9	131.9	131.9	147.6	147.6	170.2	170.2
Wages and benefits (civil service)	417.5	487.6	476.6	487.6	500.7	514.3	546.6	581.0
Civil service reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions and Other Consolidated Fund Services	70.8	108.6	91.0	108.6	118.7	118.7	134.0	134.0
Defense and NSIS	135.3	142.1	142.1	142.1	145.3	145.3	136.9	136.9
Other	496.9	580.4	618.7	653.7	554.7	700.6	660.3	661.3
Development and net lending	549.0	730.8	635.9	555.9	587.3	562.3	643.5	747.4
Domestically financed	321.1	448.2	422.6	342.6	341.0	316.0	351.9	434.7
Foreign financed	225.4	281.9	212.6	212.6	246.3	246.3	281.6	281.6
Net lending	80.0	54.9	54.9	54.9	15.3	15.3	0.0	0.0
Net lending	2.5	0.6	0.6	0.6	0.0	0.0	0.0	0.0
Overall balance including measures (cash basis, incl. grants)	-721.1	-657.4	-800.4	-881.7	-571.2	-880.9	-460.6	-809.2
Financing	721.1	657.4	800.4	881.7	571.2	880.9	505.1	848.9
Net foreign financing	414.5	353.5	327.1	327.1	345.2	420.7	319.3	345.7
Disbursements	680.8	484.8	448.6	448.6	519.3	594.9	550.6	577.0
Project loans	142.3	214.9	141.3	141.3	227.6	227.6	273.5	273.5
Program loans	84.8	2.0	246.2	246.2	2.0	2.0	3.5	3.5
of which: IMF RCF	0.0	0.0	75.1	75.1	0.0	0.0	0.0	0.0
Commercial borrowing	373.7	213.1	6.2	6.2	274.4	350.0	273.6	300.0
Standard Gauge Railway	60.0	54.9	54.9	54.9	15.3	15.3	0.0	0.0
Repayments due	-266.2	-131.4	-121.5	-121.5	-174.1	-174.1	-231.3	-231.3
Net domestic financing	306.5	303.9	473.2	554.6	226.1	460.2	185.8	503.1
Memorandum items:								
Nominal GDP	9,303.0	10,383.1	10,196.3	11,636.9	11,223.9	13,044.1	12,472.5	14,673.6
Primary balance incl. grants	-345.3	-215.9	-366.7	-448.0	-115.0	-424.9	36.2	-307.6
Total gross public debt, gross	5,809.1	6,600.0	6,600.0	7,656.9	8,647.7	9,620.5	10,552.2	11,408.6
of which: external debt	3,023.1	3,193.1	3,406.9	3,968.2	4,412.6	4,786.4	5,195.5	5,791.4
of which: domestic debt	2,785.9	3,406.9	3,193.1	3,688.8	4,235.1	4,786.4	5,356.7	5,791.4
Total net public debt	5,301.6	6,247.8	7,269.2	8,216.8	9,140.5	10,018.1	10,814.3	11,703.1
Unidentified tax policy measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pending bills	58.4	-79.5	-39.0	-39.0	0.0	0.0	0.0	0.0
Government deposits	507.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Kenyan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July to June.

Table 2b. Kenya: Central Government Financial Operations 2018/19–2024/25¹
(in percent of GDP)

	2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25	
	PreI.	BPS	Supp II	Proj.	BPS	Proj.	BPS	Proj.	BPS	Proj.	BPS	Proj.	BPS	Proj.
Revenues, grants, and unidentified tax policy measures					(in percent of GDP, unless otherwise indicated)									
Revenues and grants	18.2	19.8	18.6	18.5	18.7	17.6	18.9	17.8	18.9	18.8	17.9	18.7	18.2	18.2
Revenue	18.0	19.4	18.2	18.0	18.3	17.2	18.5	17.4	18.4	17.6	17.9	18.2	18.2	18.2
Tax revenue	15.1	15.3	13.8	13.9	15.0	13.7	15.5	14.2	15.5	14.5	15.5	14.8	15.5	14.8
Income tax	7.4	7.6	7.1	6.8	7.4	6.6	7.6	7.0	7.8	7.3	7.7	7.6	7.7	7.6
Personal income	4.2	4.2	3.8	3.7	4.1	3.5	4.4	3.9	4.5	4.2	4.5	4.4	4.4	4.4
Corporate income	3.1	3.5	3.2	3.1	3.3	3.1	3.3	3.1	3.3	3.1	3.3	3.1	3.1	3.1
Import duty (net)	1.2	1.1	0.9	1.0	1.1	0.9	1.1	1.0	1.1	1.0	1.1	1.0	1.0	1.0
Excise duty	2.1	2.3	1.9	2.2	2.2	2.3	2.1	2.3	2.1	2.3	2.1	2.1	2.3	2.3
Value-added tax	4.4	4.3	4.0	3.9	4.3	3.9	4.6	3.9	4.6	3.9	4.6	4.6	3.9	3.9
Domestic	2.5	2.4	2.3	2.2	2.4	2.2	2.2	2.2	2.2	2.2	2.4	2.2	2.2	2.2
Imports	2.0	1.9	1.7	1.7	1.8	1.6	2.2	1.6	2.1	1.6	2.2	1.6	1.6	1.6
Nontax revenue	2.9	4.1	4.3	4.1	3.4	3.5	3.1	3.2	2.9	3.1	2.9	3.1	3.1	3.1
Investment income	0.3	0.2	1.2	1.0	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Other	0.8	1.5	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Ministerial and Departmental Fees (AIA)	1.9	2.0	2.2	2.2	2.1	2.2	1.9	1.9	1.7	1.8	1.8	1.9	1.9	1.9
Railway Levy	0.0	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Expenditure and net lending														
Recurrent expenditure	25.9	27.7	26.3	27.1	23.6	25.5	22.8	24.6	21.9	23.7	21.8	23.0	22.0	22.0
Transfer to counties	20.0	20.6	20.4	21.7	18.6	20.4	17.9	19.4	16.8	18.3	17.0	17.8	17.2	17.2
Interest payments	3.9	3.6	3.2	3.2	3.2	3.1	2.9	3.2	2.7	2.9	2.4	2.8	2.4	2.4
Domestic interest	4.0	4.3	4.2	4.3	3.9	4.1	4.1	4.3	3.9	4.2	4.0	4.3	4.0	4.3
Foreign interest due	2.9	2.8	2.9	3.0	2.7	2.7	2.8	3.0	2.6	2.7	2.7	2.9	2.9	2.9
Wages and benefits (civil service)	1.1	1.5	1.3	1.3	1.3	1.3	1.3	1.4	1.3	1.4	1.3	1.3	1.3	1.3
Pensions and Other Consolidated Fund Services	4.5	4.7	4.6	4.8	4.3	4.6	4.2	4.4	3.9	4.2	3.6	4.0	4.0	4.0
Defense and NSIS	0.8	1.0	0.9	1.1	1.0	1.1	1.0	1.1	1.0	1.1	1.0	1.1	1.1	1.1
Other	1.5	1.4	1.4	1.4	1.2	1.3	1.0	1.1	1.0	1.0	0.9	0.9	0.9	0.9
Development and net lending	5.3	5.6	6.0	6.4	4.8	6.2	4.4	5.2	4.1	4.8	4.9	4.5	4.3	4.3
Domestically financed	5.9	7.0	6.1	5.5	5.0	5.0	4.9	5.2	5.1	5.5	4.7	5.3	4.9	4.9
Foreign financed	3.5	4.3	4.1	3.4	2.9	2.8	2.7	2.9	3.0	3.2	2.8	3.2	2.8	2.8
of which: SGR project	2.4	2.7	2.0	2.1	2.1	2.2	2.2	2.3	2.1	2.3	1.9	2.1	2.1	2.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance incl. measures and grants (cash basis)	-7.8	-6.3	-7.7	-8.6	-4.9	-7.8	-3.9	-6.8	-3.1	-5.8	-3.0	-4.9	-3.9	-3.9
Financing	7.8	6.3	7.7	8.6	4.9	7.8	3.9	6.8	3.1	5.8	3.0	4.9	3.9	3.9
Net foreign financing	4.5	3.4	3.2	3.2	3.0	3.7	2.4	2.8	2.0	2.2	0.6	1.5	1.7	1.7
Disbursements	7.3	4.7	4.3	4.4	4.5	5.3	4.2	4.6	3.7	4.0	3.4	4.5	3.7	3.7
Project loans	1.5	2.1	1.4	1.4	2.0	2.0	2.1	2.2	2.1	2.2	1.9	2.0	1.9	1.9
Program loans	0.9	0.0	2.4	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: IMF RCF	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial borrowing	4.0	2.1	0.1	0.1	2.4	3.1	2.1	2.4	1.6	1.8	1.5	2.5	1.8	1.8
Standard Gauge Railway	0.9	0.5	0.5	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-2.9	-1.3	-1.2	-1.2	-1.5	-1.6	-1.8	-1.9	-1.7	-1.8	-2.8	-3.0	-2.0	-2.0
Net domestic financing	3.3	2.9	4.6	5.4	1.9	4.1	1.4	4.0	1.1	3.6	2.4	3.3	2.2	2.2
Memorandum items:														
Primary balance incl. grants (Central government)	-3.7	-2.1	-3.5	-4.4	-1.0	-3.8	0.3	-2.5	0.8	-1.7	1.0	-0.6	0.4	0.4
Total gross public debt, gross	62.4	64.7	68.2	68.2	68.2	68.2	69.3	69.3	69.2	69.2	68.2	68.2	66.3	66.3
of which: external debt	32.5	33.4	33.4	33.4	33.4	33.4	34.0	34.0	34.5	34.5	34.6	33.7	33.6	33.6
of which: domestic debt	29.9	31.3	34.8	34.8	34.8	34.8	35.3	35.3	34.7	34.7	34.6	34.6	33.7	33.7
Total gross public debt, PV	28.0	27.2	27.2	27.2	27.2	27.2	27.4	27.4	27.8	27.7	27.7	27.4	26.6	26.6
Total net public debt	57.0	61.3	64.8	64.8	64.8	64.8	65.9	65.9	65.8	65.8	64.8	64.8	62.9	62.9
Unidentified tax policy measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in pending bills	0.63	-0.8	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Kenyan authorities and IMF staff estimates and projections.

¹ Fiscal year runs from July to June.

Table 3. Kenya: Monetary Survey, December 2018–December 2020

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
(In billions of Kenyan shillings, unless otherwise indicated)									
Central Bank of Kenya (CBK)									
Net foreign assets	739	747	941	872	833	753	813	716	718
(in millions of US dollars)	7,261	7,419	9,198	8,389	8,233	7,458	8,047	7,095	7,111
Net domestic assets	-247	-291	-501	-464	-372	-311	-358	-259	-224
Net domestic credit	-69	-96	-208	-198	-168	-113	-122	-55	-23
Government (net)	-95	-99	-190	-182	-182	-199	-219	-222	-245
Commercial banks (net)	23	-1	-21	-19	11	82	94	163	218
Other items (net)	-179	-195	-294	-266	-204	-198	-236	-204	-201
Reserve money	492	456	440	408	461	442	455	457	494
Currency outside banks	230	225	197	158	199	195	196	196	209
Bank reserves	262	231	243	250	262	247	259	261	285
Banks									
Net foreign assets	-25	-27	-1	-36	-29	-23	-28	-27	-26
(in millions of US dollars)	-249	-273	-11	-347	-285	-232	-281	-270	-255
Reserves	262	231	243	250	262	247	259	261	285
Credit to CBK	-23	1	21	19	-11	-82	-94	-163	-218
Net domestic assets	2,865	2,959	2,996	3,052	3,073	3,249	3,236	3,270	3,494
Net domestic credit	3,473	3,603	3,676	3,745	3,807	3,932	3,822	4,030	4,178
Government (net)	953	1,063	1,080	1,077	1,124	1,225	1,191	1,300	1,385
Other public sector	101	100	96	100	92	107	109	112	114
Private sector	2,419	2,441	2,500	2,569	2,591	2,600	2,522	2,618	2,679
Other items (net)	-608	-644	-681	-694	-734	-683	-586	-760	-684
Total deposits	3,078	3,164	3,259	3,285	3,296	3,390	3,373	3,341	3,535
Monetary survey									
Net foreign assets	714	720	940	835	804	730	784	689	692
(in millions of US dollars)	7,012	7,146	9,188	8,042	7,948	7,226	7,766	6,825	6,856
Net domestic assets	2,624	2,695	2,624	2,638	2,720	2,895	2,822	2,883	3,087
Net domestic credit	3,381	3,508	3,490	3,567	3,628	3,736	3,607	3,811	3,937
Government (net)	858	964	891	894	941	1,026	972	1,078	1,140
Other public sector	101	100	96	100	92	107	109	112	114
Private	2,422	2,444	2,503	2,572	2,595	2,603	2,526	2,621	2,683
Other items (net)	-757	-813	-866	-929	-909	-841	-785	-929	-849
M1	1,478	1,520	1,575	1,460	1,525	1,550	1,592	1,565	1,617
Money and quasi-money (M2)	2,756	2,838	2,944	2,866	2,904	2,952	3,032	2,981	3,079
M2 plus resident foreign currency deposits (M3)	3,338	3,415	3,564	3,473	3,524	3,625	3,606	3,572	3,780
M3 plus nonbank holdings of government debt (L)	4,557	4,698	4,896	4,865	4,927	5,068	5,042	4,994	5,285
Memorandum items									
(growth in percent yoy, excluding multipliers and velocity)									
M2	8.0	10.8	9.8	6.7	5.4	4.0	3.0	4.0	6.0
M3	10.1	12.5	9.2	6.5	5.6	6.1	1.2	2.8	7.3
Deposits	10.6	12.9	8.1	8.8	7.1	7.2	3.5	1.7	7.3
Reserve money	12.1	9.1	2.5	-9.4	-6.3	-3.2	3.5	12.1	7.1
Net domestic credit	4.6	13.9	7.8	8.7	7.3	6.5	3.3	6.9	8.5
Government (net)	13.6	54.3	19.5	16.1	9.7	6.4	9.1	20.5	21.1
Private	2.4	4.3	5.2	7.0	7.1	6.5	0.9	1.9	3.4
Net domestic assets of the banking sector	4.4	15.3	4.7	4.7	3.7	7.4	7.5	9.3	13.5
NDA growth (as percent of the base period M3)	2.7	8.6	2.7	2.7	2.1	4.3	4.0	5.0	7.5
Multiplier (Average M2/RM)	6.0	6.0	6.1	6.3	6.5	6.7	6.7	6.5	6.5
Multiplier (Average M3/RM)	7.2	7.3	7.4	7.7	7.9	8.0	8.0	8.0	8.1
Velocity (GDP/M2)	3.3	3.3	3.2	3.2	3.0	3.4	3.4	3.5	3.5
Velocity (GDP/M3)	2.8	2.8	2.7	2.7	2.8	2.7	2.8	2.9	2.8

Sources: Kenyan authorities and IMF staff estimates and projections.

Table 4a. Kenya: Balance of Payments, 2017–25
(BPM6 presentation, in millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual		Projections						
Current account	-4,871	-4,364	-4,309	-4,520	-4,593	-4,991	-5,478	-5,987	-6,532
Trade balance	-10,208	-10,242	-10,369	-8,777	-10,535	-11,656	-12,683	-13,749	-14,857
Goods: exports, f.o.b.	5,795	6,108	6,049	5,197	5,807	6,328	6,918	7,594	8,262
Coffee	230	232	225	220	262	295	318	345	373
Tea	1,424	1,370	1,167	940	1,019	1,091	1,167	1,254	1,342
Horticulture	916	1,044	1,042	832	933	1,032	1,136	1,270	1,372
Other	3,225	3,462	3,615	3,205	3,593	3,910	4,297	4,725	5,175
Goods: imports, f.o.b.	16,003	16,350	16,418	13,974	16,342	17,984	19,601	21,342	23,118
Oil products	2,727	3,386	3,206	1,793	2,135	2,480	2,795	3,084	3,366
Other	13,276	12,964	13,213	12,181	14,207	15,504	16,806	18,258	19,752
Capital imports	4,678	4,540	4,396	4,172	4,964	5,403	5,815	6,374	6,909
Services balance	1,556	1,597	1,643	577	1,579	1,822	1,957	2,172	2,326
Services, credit	4,650	5,480	5,647	4,317	5,831	6,374	6,942	7,572	8,240
Transportation	1,624	1,960	2,008	1,051	1,781	1,960	2,155	2,379	2,616
Travel	916	1,073	1,117	642	1,200	1,328	1,444	1,569	1,688
Services, debit	3,094	3,883	4,004	3,740	4,253	4,552	4,985	5,400	5,913
Transportation	1,032	1,397	1,430	1,132	1,417	1,559	1,699	1,850	2,004
Goods and services balance	-8,651	-8,645	-8,726	-8,199	-8,956	-9,835	-10,726	-11,577	-12,530
Primary income, balance	-675	-728	-1,012	-1,471	-1,611	-1,618	-1,771	-2,109	-2,347
Credit	595	720	733	263	194	488	708	726	766
Debit	1,271	1,448	1,745	1,734	1,805	2,105	2,479	2,835	3,113
Secondary income, balance	4,455	5,009	5,429	5,150	5,974	6,462	7,020	7,699	8,345
Credit	4,511	5,055	5,477	5,199	6,026	6,516	7,077	7,760	8,410
Remittances	1,963	2,722	2,921	2,729	3,274	3,584	3,884	4,206	4,596
Debit	56	46	48	49	51	55	58	61	65
Capital account	184	263	162	361	375	407	411	423	459
Financial account	-5,520	-7,528	-5,272	-2,314	-4,817	-5,108	-5,379	-6,293	-6,970
Foreign direct investment	-1,019	-1,462	-1,107	-751	-973	-1,130	-1,283	-1,439	-1,589
Direct investment, assets	257	164	171	133	167	170	172	187	194
Direct investment, liabilities	1,276	1,627	1,278	884	1,140	1,300	1,454	1,626	1,783
Portfolio investment	789	-625	-620	339	-1,492	-1,391	-1,286	-382	-77
Portfolio investment, assets	666	1,082	914	57	157	263	272	282	292
Portfolio investment, liabilities	-124	1,707	1,534	-282	1,650	1,654	1,559	664	369
Equity and investment fund shares	-126	-293	14	-285	47	51	55	60	65
Debt securities	3	2,000	1,520	3	1,603	1,603	1,503	604	304
Financial derivatives	0	0	0	0	0	0	0	0	0
Other investment	-5,290	-5,441	-3,544	-1,902	-2,351	-2,587	-2,810	-4,472	-5,304
Other investment, assets	65	74	57	65	66	63	65	64	64
Other investment, liabilities	5,355	5,515	3,601	1,968	2,417	2,650	2,875	4,536	5,368
Net errors and omissions	-956	-2,395	0	0	0	0	0	0	0
Overall balance	-122	1,031	1,126	-1,845	599	524	312	730	896
Reserves and related items	-122	1,031	1,126	-1,845	599	524	312	730	896
Reserve assets (gross)	-241	885	972	-1,233	473	455	282	730	821
Use of Fund credit and loans to the Fund (net)	-119	-146	-154	612	-126	-70	-30	0	-76
Disbursements (RCF)	0	0	0	744	0	0	0	0	0
Repayments	119	146	154	132	126	70	30	0	76
Memorandum items:									
Gross official reserves (end of period)	7,150	8,144	9,116	7,882	8,355	8,810	9,092	9,822	10,643
(in months of next year's imports)	4.2	4.8	6.2	4.6	4.4	4.3	4.1	4.1	4.1
(in months of 3-year-rolling average imports) 1/	4.9	5.3	5.5	4.9	5.1	5.2	4.8	4.8	4.8
(in percent of M3)	23.6	24.4	25.9	21.1	19.5	17.7	15.8	14.3	13.7
WEO oil price (APSP, US\$)	52.8	68.3	61.4	35.6	37.9	40.9	43.2	45.0	46.4
Terms of trade 2/	4.0	3.3	-0.2	9.4	-0.9	-1.1	-0.6	-0.7	-0.8

Sources: Kenyan authorities and IMF staff estimates and projections.

1/ CBK definition of reserve cover: in months of imports of goods and services over the previous 36 months (annualized rolling average).

2/ Percentage change, goods and services.

Table 4b. Kenya: Balance of Payments, 2017–25

(BPM6 presentation, in percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual		Projections						
Current account	-6.2	-5.0	-4.5	-4.4	-4.2	-4.2	-4.3	-4.3	-4.3
Trade balance	-12.9	-11.7	-10.9	-8.6	-9.7	-9.9	-9.9	-9.9	-9.8
Goods: exports, f.o.b.	7.3	7.0	6.3	5.1	5.3	5.4	5.4	5.5	5.5
Coffee	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Tea	1.8	1.6	1.2	0.9	0.9	0.9	0.9	0.9	0.9
Horticulture	1.2	1.2	1.1	0.8	0.9	0.9	0.9	0.9	0.9
Other	4.1	3.9	3.8	3.1	3.3	3.3	3.4	3.4	3.4
Goods: imports, f.o.b.	20.3	18.6	17.2	13.7	15.0	15.2	15.3	15.3	15.3
Oil products	3.5	3.9	3.4	1.8	2.0	2.1	2.2	2.2	2.2
Other	16.8	14.8	13.9	11.9	13.1	13.1	13.1	13.1	13.1
Capital imports	5.9	5.2	4.6	4.1	4.6	4.6	4.5	4.6	4.6
Services balance	2.0	1.8	1.7	0.6	1.5	1.5	1.5	1.6	1.5
Services, credit	5.9	6.2	5.9	4.2	5.4	5.4	5.4	5.4	5.5
Transportation	2.1	2.2	2.1	1.0	1.6	1.7	1.7	1.7	1.7
Travel	1.2	1.2	1.2	0.6	1.1	1.1	1.1	1.1	1.1
Services, debit	3.9	4.4	4.2	3.7	3.9	3.9	3.9	3.9	3.9
Transportation	1.3	1.6	1.5	1.1	1.3	1.3	1.3	1.3	1.3
Goods and services balance	-10.9	-9.8	-9.1	-8.0	-8.2	-8.3	-8.4	-8.3	-8.3
Primary income, balance	-0.9	-0.8	-1.1	-1.4	-1.5	-1.4	-1.4	-1.5	-1.6
Credit	0.8	0.8	0.8	0.3	0.2	0.4	0.6	0.5	0.5
Debit	1.6	1.6	1.8	1.7	1.7	1.8	1.9	2.0	2.1
Secondary income, balance	5.6	5.7	5.7	5.0	5.5	5.5	5.5	5.5	5.5
Credit	5.7	5.8	5.7	5.1	5.5	5.5	5.5	5.6	5.6
Remittances	2.5	3.1	3.1	2.7	3.0	3.0	3.0	3.0	3.0
Debit	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital account	0.2	0.3	0.2	0.4	0.3	0.3	0.3	0.3	0.3
Financial account	-7.0	-8.6	-5.5	-2.3	-4.4	-4.3	-4.2	-4.5	-4.6
Foreign direct investment	-1.3	-1.7	-1.2	-0.7	-0.9	-1.0	-1.0	-1.0	-1.1
Direct investment, assets	0.3	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Direct investment, liabilities	1.6	1.9	1.3	0.9	1.0	1.1	1.1	1.2	1.2
Portfolio investment	1.0	-0.7	-0.7	0.3	-1.4	-1.2	-1.0	-0.3	-0.1
Portfolio investment, assets	0.8	1.2	1.0	0.1	0.1	0.2	0.2	0.2	0.2
Portfolio investment, liabilities	-0.2	1.9	1.6	-0.3	1.5	1.4	1.2	0.5	0.2
Equity and investment fund shares	-0.2	-0.3	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	2.3	1.6	0.0	1.5	1.4	1.2	0.4	0.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-6.7	-6.2	-3.7	-1.9	-2.2	-2.2	-2.2	-3.2	-3.5
Other investment, assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Other investment, liabilities	6.8	6.3	3.8	1.9	2.2	2.2	2.2	3.3	3.6
Net errors and omissions	-1.2	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.2	1.2	1.2	-1.8	0.6	0.4	0.2	0.5	0.6
Reserves and related items	-0.2	1.2	1.2	-1.8	0.6	0.4	0.2	0.5	0.6
Reserve assets (gross)	-0.3	1.0	1.0	-1.2	0.4	0.4	0.2	0.5	0.5
Use of Fund credit and loans to the Fund (net)	-0.2	-0.2	-0.2	0.6	-0.1	-0.1	0.0	0.0	-0.1
Disbursements (RCF)	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Repayments	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.1
Memorandum items:									
Gross official reserves (end of period)	9.0	9.3	9.6	7.7	7.7	7.5	7.1	7.1	7.1
Exports of goods and nonfactor services	13.2	13.2	12.3	9.3	10.7	10.7	10.8	10.9	10.9
Imports of goods and nonfactor services	24.2	23.0	21.4	17.3	18.9	19.1	19.2	19.2	19.2

Sources: Kenyan authorities and IMF staff estimates and projections.

Table 5. Kenya. Financial Soundness Indicators of the Banking Sector

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Feb-20
(Percent)													
Capital adequacy													
Regulatory capital to risk-weighted assets	19.4	19.6	18.8	18.5	18.7	18.0	17.5	17.8	18.4	18.2	18.3	18.8	18.7
Regulatory tier 1 capital to risk-weighted assets	16.6	16.8	16.2	16.0	16.5	16.5	16.2	16.5	16.7	16.5	16.3	16.8	16.6
Total capital to total assets	16.0	15.5	15.3	15.3	15.3	13.9	13.7	14.0	14.3	14.1	14.2	14.8	14.7
Asset quality													
Non-performing loans to total gross loans ¹	9.6	9.9	10.4	10.6	11.8	12.0	12.5	12.0	12.8	12.7	12.4	12.0	12.7
Bank provisions to NPLs	53.8	60.2	54.5	53.2	67.4	66.0	66.4	66.7	61.9	62.5	65.8	62.9	65.4
Non-performing loans net of provisions to capital	17.0	15.2	18.4	19.5	15.0	17.1	17.7	16.4	19.2	18.9	17.2	16.1	17.0
Earning assets to total assets	90.2	91.6	90.6	90.8	92.3	92.2	91.9	91.0	91.2	90.5	91.3	91.9	92.2
Earning and profitability													
Return on assets (ROA)	2.9	2.8	2.6	2.7	2.8	2.8	2.7	2.7	2.9	2.8	2.7	2.5	2.2
Return on equity (ROE)	22.2	22.3	20.6	20.8	23.9	23.7	22.8	22.5	24.6	23.8	22.5	21.2	19.6
Interest margin to gross income	30.0	29.2	29.1	29.1	27.1	26.5	25.4	25.5	24.9	24.8	24.4	25.2	24.1
Non-interest expenses to gross income	43.1	43.9	44.9	45.2	41.9	42.1	42.1	42.6	40.3	41.4	42.6	43.9	46.3
Liquidity													
Liquid assets to total assets	33.7	35.4	35.9	34.6	36.5	37.7	38.8	38.8	39.8	39.6	38.5	39.3	40.2
Liquid assets to short-term liabilities	43.8	44.7	45.4	43.7	45.8	48.0	49.3	48.6	51.2	50.6	50.9	49.7	51.1
Liquid assets to total deposits	46.9	48.6	49.6	47.4	49.7	50.5	52.6	51.7	53.6	53.1	52.9	53.2	54.5
Total loans to total deposits	86.0	82.7	81.1	82.9	81.2	78.2	78.0	76.7	75.7	75.4	79.2	77.7	76.6
Sensitivity to market risk													
Net open position in foreign exchange to capital	3.2	3.8	3.7	4.5	2.6	3.1	2.0	2.5	1.6	2.9	1.9	1.7	1.4
Interest bearing assets to interest bearing liabilities	125.6	125.8	125.2	124.4	125.7	123.5	124.8	121.4	122.7	121.2	125.5	124.4	124.8
FX currency denominated assets to total assets	15.4	16.1	15.8	16.8	16.0	15.9	15.9	15.6	15.1	15.2	15.4	15.1	15.4
FX currency denominated liabilities to total liabilities	22.5	23.2	22.7	23.5	22.9	24.4	24.3	24.3	23.5	23.9	24.5	24.4	24.6
Spread between lending and deposit rate	6.2	6.4	6.2	6.4	6.2	6.2	6.0	6.0	6.1	5.9	5.5	5.6	5.6

Source: Central Bank of Kenya.

¹ The data for Chase Bank in receivership and Charterhouse Bank under

Table 6. Kenya: Indicators of Fund Credit, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit (In millions of SDRs)											
Total	87.1	91.3	50.5	21.7	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Principal	86.9	91.2	50.3	21.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Obligations to the Fund from existing and prospective credit (In millions of SDRs)											
Principal	0.2	0.1	0.1	0.1	0.1	54.4	108.7	108.7	108.7	108.7	54.4
RCF Arrangement	0.0	0.0	0.0	0.0	0.0	54.3	108.6	108.6	108.6	108.6	54.3
Charges and interest	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
SDR Assessments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Charges	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Obligations to the Fund from existing and prospective credit											
In millions of U.S. dollars	0.3	0.2	0.2	0.2	0.2	74.5	148.9	148.9	148.9	148.9	74.5
In percent of gross international reserves	0.0	0.0	0.0	0.0	0.0	0.7	1.3	1.2	1.1	1.0	0.5
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.5	0.8	0.8	0.7	0.6	0.3
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0
In percent of quota	0.0	0.0	0.0	0.0	0.0	10.0	20.0	20.0	20.0	20.0	10.0
Outstanding Fund credit based on existing drawings (end-of-period, all PRGT)											
In millions of SDRs	163.1	71.9	21.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of quota	30.0	13.2	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding Fund credit based on existing and prospective drawings (end-of-period)											
In millions of SDRs	705.9	614.7	564.4	542.8	542.8	488.5	380.0	271.4	162.8	54.3	0.0
In millions of U.S. dollars	967.0	842.1	773.1	743.6	743.6	669.2	520.5	371.8	223.1	74.4	0.0
In percent of gross international reserves	12.3	10.1	8.8	8.2	7.6	6.3	4.4	2.9	1.6	0.5	0.0
In percent of exports of goods and services	10.2	7.2	6.1	5.4	4.9	4.1	2.9	1.9	1.0	0.3	0.0
In percent of GDP	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0
In percent of quota	130.0	113.2	104.0	100.0	100.0	90.0	70.0	50.0	30.0	10.0	0.0
Memorandum items:											
Exports of goods and services (in billions of U.S. dollars)	9.5	11.6	12.7	13.9	15.2	16.5	18.0	19.7	21.5	23.5	25.6
Gross international reserves (in billions of U.S. dollars)	7.9	8.4	8.8	9.1	9.8	10.6	11.7	12.7	13.8	15.0	16.3
Debt service, existing drawings (in millions of U.S. dollars)	5,288	2,094	4,736	4,543	10,745	10,845	12,406	12,198	14,797	15,671	17,475
Debt service (in millions of U.S. dollars)	5,169	1,969	4,667	4,513	10,745	10,919	12,555	12,347	14,946	15,820	17,550
Quota (in millions of SDRs)	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8
SDR per USD (as at March 30, 2020)	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73

Sources: Fund staff estimates; and projections.

Table 7. Kenya: External Financing Requirements and Sources, 2018–23

(BPM6 presentation, financial years)

	2018	2019	2020	2021	2022	2023
	Actual	Prelim.	Projections			
(USD mn)						
Total requirements	6,031	7,096	6,165	6,697	7,143	7,607
Current account deficit	4,364	4,309	4,520	4,593	4,991	5,478
Capital outflows	1,668	2,787	1,645	2,103	2,152	2,129
Repayments of MLT loans (public sector)	1,503	1,867	1,512	1,936	1,982	1,957
Portfolio investment (sovereign bond)	0	750	0	0	0	0
Foreign direct investment abroad	164	171	133	167	170	172
Total sources	7,063	8,222	4,019	7,295	7,667	7,919
Public sector	6,195	6,275	3,338	6,025	5,740	5,769
Project grants	263	162	361	375	407	411
MLT loan disbursements to public sector	3,933	4,013	2,978	4,050	3,734	3,858
Portfolio investment (sovereign bond)	2,000	2,100	0	1,600	1,600	1,500
Private sector	868	1,947	681	1,270	1,927	2,150
Foreign direct investment in Kenya	1,627	1,278	884	1,140	1,300	1,454
Other net flows (including errors and omissions)	-759	669	-203	130	626	695
Financing gap (- =excess of financing)	-1,031	-1,126	2,145	-599	-524	-312
Additional financing sources	-1,031	-1,126	2,145	-599	-524	-312
IMF (net)	-146	-154	612	-126	-70	-30
Disbursements (RCF)	0	0	744	0	0	0
Repayments	146	154	132	126	70	30
World Bank	0	0	300	0	0	0
Reserve accumulation(- =increase)	-885	-972	1,233	-473	-455	-282
(percent of GDP)						
Total requirements	6.9	7.4	6.0	6.2	6.0	5.9
Total sources	8.0	8.6	3.9	6.7	6.5	6.2
Capital inflows	9.2	9.8	2.1	7.3	6.9	6.4
IMF (net)	-0.2	-0.2	0.6	-0.1	-0.1	0.0
Reserve accumulation (- = increase)	-1.0	-1.0	1.2	-0.4	-0.4	-0.2

Sources: Kenyan authorities and IMF staff estimates and projections.

Appendix I. Letter of Intent

April 30, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th St, NW
Washington, DC 20431
USA

Dear Managing Director:

The COVID-19 pandemic is having a significant negative impact on the Kenyan population and economy. Protecting public health is our priority. The economic impact was being felt well before our country's first case was confirmed on March 12: Trade was already declining rapidly and tourism arrivals had fallen dramatically. Activity in our typically resilient and important services sector has, in turn, sharply dropped off. At the same time, Kenya is experiencing a slowdown in its equally important agriculture sector as global demand for our agricultural exports slows and global shipping channels close.

The outlook for economic growth is highly uncertain. Our preliminary estimates suggest that growth could decline from 5.4 percent in 2019 to around 3 percent this year – down from a pre-pandemic projection of the IMF staff of 5.8 percent during the time of the IMF mission in February 2020—due to disruptions to trade, tourism, agriculture, and manufacturing. However, the risks to this projection are slanted heavily to the downside. To be conservative, and in view of this uncertainty, the framework underlying this request assumes growth of 0.8 percent in 2020.

While it is difficult at this stage to fully and accurately assess the impact of the pandemic on the budget, it will clearly be significant. Expenditures to directly fight COVID-19 in Kenya, as well as provision of support for affected sectors and individuals, will entail additional spending of at least 0.4 percent of GDP relative to the previous budget, including 0.1 percent of GDP in cash transfers to orphans, the elderly, and the most vulnerable. These costs could rise if the crisis worsens, and we are committed to approving any necessary funding. Tax reductions will also be implemented to help maintain economic activity and protect the vulnerable, which will reduce revenues by 0.4 percent of GDP this fiscal year relative to the previous budget. Specific measures include 100 percent tax relief for lower-income individuals; reduced income and corporate tax rates, from 30 to 25 percent; a reduced VAT rate, from 16 to 14 percent; and a reduced turnover tax rate, from 3 to 1 percent. To help offset the revenue impact of lower tax rates and to improve the efficiency of our tax system, we have undertaken to eliminate a long list of exemptions in the corporate income tax and VAT. We are closely monitoring the economic impact of COVID-19. Once economic activity recovers sufficiently, we will review our tax measures to fully restore revenues as a

share of GDP as part of our efforts to strengthen the public finances. We remain committed to raising the ratio of tax revenue to GDP over the medium term.

The COVID shock and the policies we are undertaking to address it will make it necessary to implement our ambitious multi-year fiscal consolidation plan in a more gradual manner than originally envisaged. The plan will entail a mix of revenue and expenditure measures to reduce budget deficits and put public debt on a downward path.

Kenya's external vulnerabilities will rise as this global crisis continues. Significantly lower oil prices should help to offset weaker exports and foreign remittances and keep the current account stable. However, a drying up of international capital amid a general pullback from emerging and frontier markets will worsen Kenya's balance of payments. In that context, the balance of payments gap could reach up to 2.1 percent of GDP. In such a situation, we would expect international reserve coverage to decline significantly.

The Central Bank of Kenya (CBK) has taken a number of measures to help support the economy and maintain financial stability since the start of the crisis. These include 100 bps cuts in the policy rate and cash reserve ratio, an increase in reverse repo tenors, and increased flexibility for banks' loan classification and provisioning requirements—together, these measures should help to maintain the availability of liquidity and prevent abrupt financial dislocations. At the same time, the CBK remains mindful of its price stability mandate: At the moment, risks to inflation appear balanced, with low energy prices and weakening demand offsetting potential price pressures due to import disruptions. However, the CBK will continue to closely track inflation developments and its decisions will remain data-dependent. Parallel efforts by the CBK to strengthen its monetary policy framework—already in train before the crisis—will allow the CBK to provide an effective policy response that can support recovery. The CBK has also taken steps to extend maturity dates for bank borrowers affected by the pandemic, while remaining vigilant to ensure financial stability. Finally, the CBK remains committed to a flexible exchange rate regime, using the exchange rate as a shock absorber with FX intervention used selectively to minimize excess volatility.

We do not intend to introduce measures or policies that would exacerbate balance of payments difficulties. Kenya will continue to comply with the provisions of the IMF's Articles of Agreement, including those related to imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions and also bilateral payments under Article VIII, and will implement public policies under that framework and avoid additional trade restrictions for balance of payment purposes.

In this context, and given the urgent balance of payments financing need facing Kenya due to the pandemic, Kenya requests emergency financing from the IMF under the Rapid Credit Facility (RCF) of SDR 542.8 million, equivalent to 100 percent of our quota. We request that the funds be disbursed as direct budget support to the National Treasury's account at the CBK. In view of this, a memorandum of understanding has been signed between the National Treasury and the CBK on their respective responsibilities for servicing their financial obligations to the IMF. These

disbursements will help to fill our expected fiscal financing gap and provide a cushion to our international reserves in 2020. IMF involvement in Kenya's response to this emergency will likely act as a catalyst for additional financing from other development partners. To this end, we have requested and expect to receive additional financing from the World Bank and are pursuing additional funds from the African Development Bank. We also plan to subsequently resume our discussions on a potential precautionary Stand-By Arrangement/Standby Credit Facility to support our economic program, which were initiated in February this year. Our reforms seek to support our continued objective of a growth-friendly fiscal adjustment that protects public investment and priority social spending, boosts revenue performance, and reduces public debt as a share of GDP.

In the context of the September 2019 update safeguards assessment, we remain committed to implementing IMF staff's recommendations in this area. We also commit to providing Fund staff with the most recently completed external audit reports.

We recognize the importance of safeguarding IMF and other financial assistance resources to ensure that such assistance is used for the very urgent purpose of resolving the current crisis. With that in mind, we commit to post-crisis auditing by our independent audit office of samples of crisis-related expenditures and publication of the results. More generally, we are strongly committed to ensuring effective and transparent use of public funds. To this end, we are working to strengthen our institutions and our capacity to detect illicit enrichment and to address conflict of interest in line with international best practices and Fund advice.

We authorize the IMF to publish this Letter and the staff report for the request for the disbursement under the RCF.

Sincerely yours,

/s/

Hon. (Amb.) Ukur K. Yatani, EGH
Cabinet Secretary
The National Treasury and Planning

/s/

Dr. Patrick Njoroge
Governor
Central Bank of Kenya



KENYA

April 30, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with Other Departments)

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RELATIONS WITH THE FUND

(As of March 31, 2020)

Membership Status: Joined: February 03, 1964; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	542.8	100.00
Fund holdings of currency (Exchange Rate)	529.49	97.54
Reserve Tranche Position	13.40	2.47
SDR Department:	SDR Million	Percent Allocation
<u>Net cumulative allocation</u>	259.65	100.00
<u>Holdings</u>	31.68	12.20
Outstanding Purchases and Loans:	SDR Million	Percent Quota
ECF Arrangements	249.96	46.05

Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By	Mar 14, 2016	Sep 14, 2018	709.26	0.00
SCF ¹	Mar 14, 2016	Mar 13, 2018	354.63	0.00
SCF	Feb 02, 2015	Mar 14, 2016	135.70	0.00

Projected Payments to Fund ² (SDR Million, based on existing use of resources and present holdings of SDRs):

	<u>2020</u>	<u>Forthcoming</u>		<u>2023</u>	<u>2024</u>
		<u>2021</u>	<u>2022</u>		
Principal	86.85	91.19	50.34	21.58	
Charges/Interest	<u>0.24</u>	<u>0.12</u>	<u>0.12</u>	<u>0.12</u>	<u>0.12</u>
Total	<u>87.09</u>	<u>91.31</u>	<u>50.46</u>	<u>21.69</u>	<u>0.12</u>

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessments:

An update safeguards assessment of the Central Bank of Kenya (CBK) was completed in September 2019 with respect to the SBA/SCF that was expected to be approved in May 2020. The assessment

¹ Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

found that the CBK has maintained sound external audit and financial reporting practices, and its Board has active oversight of operations. In addition, the CBK continues to maintain effective operational controls. Staff is following up on the implementation status of a number of recommendations.

Exchange Rate Arrangement:

Kenya's currency is the Kenyan Shilling. Kenya's de jure exchange rate arrangement is free floating, and its de facto exchange rate arrangement is classified as other managed (2019 AREAER).

Kenya accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from June 30, 1994 and maintains an exchange system free of restrictions on payments and transfers for current international transactions, other than restrictions notified to the Fund under Decision No. 144 (52/51).

Article IV Consultation:

The last Article IV consultation with Kenya concluded on June 13, 2018. Kenya is currently on a 12-month Article IV cycle.

FSAP Participation:

A joint IMF/WB mission assessed Kenya's financial sector as part of the Financial Sector Assessment Program (FSAP) update during September 2009. The staff report on the Financial Sector Stability Assessment was issued to the Executive Board concurrently with the 2009 Article IV Consultation Staff Report.

Technical Assistance:

Technical assistance activities provided to Kenya since 2019 are listed in next page.

Resident Representative:

Mr. Tobias Rasmussen, since October 2019.

Technical Assistance, 2019–20

	Year of Delivery
Fiscal Affairs Department (FAD)	
Public Investment Management assessment	2019
Risk identification, compliance	2019
Revenue administration	2019
Tax policy: Full Diagnostic	2019
Strengthening Domestic Taxes Risk Management and Audit Case	2019
Tax administration	2020
AFRITAC East: Annual Financial Reporting	2019
AFRITAC East: Building a budget costing framework	2019
AFRITAC East: Building a revenue forecasting framework with the PBO	2019
AFRITAC East: Developing macroeconomic forecasts with the PBO	2019
AFRITAC East: Improving Revenue Performance	2019
AFRITAC East: Revenue Performance	2019
AFRITAC East: Desk Review of Inception Reports for Revised Chart of Accounts and Policy Guidelines	2019-2020
AFRITAC East: Strengthening customs administration	2019
AFRITAC East: National training on project identification, appraisal and selection	2019
Monetary and Capital Markets Department (MCM)	
Central Bank Governance	2020
Government Securities Market Development	2020
Monetary policy design and implementation	2020
AFRITAC East: Basel II/III Implementation	2020
AFRITAC East: Strengthening IFRS 9 Implementation	2020
AFRITAC East: Strengthening Risk-based Securities Supervision	2019
AFRITAC East: Strengthening internal liquidity adequacy assessment processes for banks	2019
AFRITAC East: Strengthening Macroprudential Policy Framework	2019
Central bank risk management	2019
AFRITAC East: Mobile banking review	2019
AFRITAC East: Strengthening risk-based supervision for insurance companies follow up	2019
Legal Department (LEG)	
AML/CFT supervision and FIU	2019
AML/CFT- FIU structures and tools	2019
Statistics Department (STA)	
AFRITAC East: Producer price index	2020
AFRITAC East: Review of the preliminary rebased CPI and PPI	2020
AFRITAC East: Review of the preliminary rebased GDP series	2020
Balance of payments statistics	2019
Government finance statistics	2019
AFRITAC East: Developing household sector accounts	2019
AFRITAC East: Fiscal Transparency Evaluation	2019
AFRITAC East: several Government Finance Statistics missions	2019
AFRITAC East: GFS TA mission on improvement of quality for general government	2019
PPI rebasing - updating weights and reviewing data sources	2019

STATISTICAL ISSUES

(as of April 1, 2020):

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision is broadly adequate for surveillance and program monitoring, although it has some shortcomings because of capacity constraints. Although the overall quality, timeliness and coverage of macroeconomic statistics have improved over the past few years, further improvements in the methodology of compiling real, fiscal, and external sector statistics would be desirable to facilitate enhanced design and monitoring of economic policies.</p>
<p>National Accounts: The Kenya National Bureau of Statistics (KNBS) has made significant efforts to enhance national statistics compilation. The East AFRITAC statistics advisor assisted with improving and rebasing the annual and quarterly national accounts estimates at current and constant (from 2001 to 2009) prices and developing 2009 supply and use tables (SUTs) to better anchor the annual GDP estimates, along with other methodological changes. Improved source data and the balancing of economic flows via the SUTs resulted in improved coverage and more robust estimates. Rebased GDP and revised GDP for 2006–13 were published in September 2014. The difference between old and new base was 20.5 percent. SUT for 2009 for Kenya were published in the Economic Survey 2014 report (April 2014). The SUT provided a basis for development of the Input-Output Tables (IOT) and the Social Accounting Matrix (SAM), which were published in the Economic survey 2015 (April 2015). The KNBS is participating in the Quarterly National Accounts (QNA) Statistics Module of the IMF-U.K. Department for International Development (DFID). However, the authorities are currently developing a time series with a contemporary base year (2016) and expect to release these data by April 2020 (to replace the 2009 base year). The authorities also publish a quarterly GDP time series in both current and constant prices. Inadequate staff resources continue to be a challenge to implementation of improvements identified during technical assistance.</p>
<p>Price Statistics: The KNBS has updated the CPI using expenditures from the 2015/16 KIHBS and released its rebased series on March 31, 2020.</p>
<p>Government Finance Statistics (GFS): East AFRITAC (AFE) collaborates closely with the EAC Secretariat through a capacity building program to support efforts to improve compilation and dissemination of government finance statistics (GFS) and Public-Sector Debt Statistics (PSDS) based on the Government Finance Statistics Manual 2014 (GFSM 2014) to achieve the fiscal data requirements associated with the East African Monetary Union (EAMU) Protocol. A series of AFE GFS and PSDS TA missions are taking place to further support efforts to improve fiscal data.</p> <p>While GFS is reported at General Government (GG) level, future work will aim to improve timeliness, reduce discrepancies, improve stock data and the quality of GG data. The authorities have committed to compiling and disseminating high-frequency Budgetary Central Government (BCG) data. Progress is being made in extending coverage to public corporations. Quarterly Public-Sector Debt is disseminated for certain elements of BCG, but data is reported at face value and not nominal value.</p>
<p>Monetary and Financial Statistics: Monetary and financial statistics are compiled broadly in line with the <i>Monetary and Financial Statistics Manual</i>. The CBK reports monetary and financial statistics monthly, using Standardized Report Forms (SRFs) for the central bank and other depository corporations (ODCs), and monetary data based on these SRFs are published in the <i>International Financial Statistics</i>. The CBK has recently made progress: in expanding the coverage of ODCs data to include savings and credit cooperatives (SACCOs) and microfinance banks; and in developing other financial corporations (OFCs) data which comprises of insurance corporations and pension funds – those data are submitted for STA's review.</p>

Financial sector surveillance: Kenya does not participate in the IMF's Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS). The CBK reports Financial Soundness Indicators (FSIs) on a quarterly basis which include 11 core and 11 encouraged indicators for deposit takers. Data on the household debt to gross domestic product ratio is also reported. However, FSIs on other financial corporations and nonfinancial corporations are not reported.

External sector statistics: The KNBS compiles annual balance of payments statistics following the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* in Kenyan shillings that are regularly reported to STA. In addition, the Central Bank of Kenya (CBK) compiles a complete set of annual balance of payments statistics in U.S. dollars, which are reported to AFR and used for programming and surveillance purposes. The two datasets are not entirely consistent, and Fund staff has strongly encouraged the authorities to reconcile them.

Although the overall quality of trade data is reasonably good, data for other current account and many financial account transactions are rather weak and there is a need to reduce large errors and omissions. The financial account is largely drawn from the International Transactions Reporting System (ITRS), which suffers from a large and growing element of unclassified inflows and outflows that might well include settlements of current account transactions.

The last TA mission on external sector statistics (ESS), conducted in October 2019, supported the KNBS in advancing the ESS compilation. Annual international investment position (IIP) data are scheduled to be reported to STA in mid-2020. The mission also reviewed the 2018 financial investment survey (FIS). Past data should be revised with the latest FIS results as they involve a broader coverage of statistical units than the other data sources such as the ITRS.

In addition, Kenya made advances in developing the harmonized balance of payments statistics compilation and dissemination frameworks through their participation in the STA's Enhanced Data Dissemination Initiative 2 project (Module 2) for six EAC countries supported by the UK DFID. Major outcomes achieved through this project include: harmonized trade in goods statistics and important service components; reduced discrepancies with mirror data on exports/imports of goods among EAC countries; harmonization of coverage, level of detail, and methodology of reserve assets compilation within EAC; and improved consistency of balance of payments statistics with other macroeconomic datasets.

II. Data Standards and Quality

Kenya participates in the Enhanced General Data Dissemination System and the EDDI2 TA project financed by DFID. A Data ROSC was conducted in October 2005.

III. Reporting to STA

The data for the General Government is reported to STA in *GFSM 2014* format with a long lag and disseminated in the *GFS Yearbook*. Monthly and quarterly GFS data are regularly reported for inclusion in the *International Financial Statistics (IFS)*. Monetary data for the central bank and ODCs are regularly reported for inclusion in the *IFS*. Annual balance of payments data, following *BPM6* classifications, are regularly reported to STA.

Common Indicators Required for Surveillance					
	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication
Exchange rate	3/27/2020	3/27/2020	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	1/31/2020	3/27/2020	M	M	NA
Reserve/Base Money	1/31/2020	1/31/2020	D	M	NA
Broad Money	1/31/2020	1/31/2020	D	M	NA
Central Bank Balance Sheet	1/31/2020	1/31/2020	D	M	NA
Consolidated Balance Sheet of the Banking System	12/31/2019		A	A	A
Interest Rates ²	1/31/2020	1/31/2020	D	D	NA
Consumer Price Index	2/29/2020	2/29/2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ — General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ — Central Government	2/29/2020	3/27/2020	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/30/2019	1/26/2020	A	A	NA
External Current Account Balance	12/31/2019	2/28/2020	M	M	NA
Exports and Imports of Goods and Services	1/31/2020	2/28/2020	M	M	M
GDP/GNP	12/31/2018 (A) 9/30/2019(Q)	4/26/2019 12/31/2019	Q,A	Q,A	Q,A
Gross External Debt	NA	NA	NA	NA	NA
International Investment Position	NA	NA	NA	NA	NA
<p>¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.</p> <p>² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.</p> <p>³ Foreign, domestic-bank, and domestic non-bank financing.</p> <p>⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.</p> <p>⁵ Including currency and maturity composition.</p> <p>⁶ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).</p>					

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Kenya and the World Bank:

<https://www.worldbank.org/en/country/kenya>

World Bank Projects:

https://projects.worldbank.org/en/projects-operations/projects-summary?lang=en&searchTerm=&countrycode_exact=KE

Kenya and the African Development Bank:

<https://www.afdb.org/en/countries/east-africa/kenya>



KENYA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

April 30, 2020

Approved By
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Prepared by the staffs of the International Monetary Fund and the International Development Association

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

Kenya's debt remains sustainable. The risk of debt distress has moved to high from moderate due to the impact of the global COVID-19 crisis which exacerbated existing vulnerabilities¹ The COVID-19 crisis has led to a sharp decline in export and economic growth. Addressing the crisis has required a strong fiscal response from the authorities that has also increased budget deficits. Consequently, a number of debt indicators have worsened. Kenya's external and public debt vulnerabilities also reflect the high deficits of the past, including due to a decline in tax revenues as a share of GDP in recent years. Solvency indicators for the PV of external debt-to-GDP ratio and PV of total public debt-to-GDP ratios are firmly below the indicative threshold/benchmark under the baseline scenario. However, there are breaches of one solvency indicator (i.e., the present value (PV) of external debt-to-exports ratio) and one liquidity indicator (i.e., the external debt service-to-exports ratio) above the thresholds under the baseline scenario. It is expected that Kenya's debt indicators will improve as exports rebound after the global shock dissipates. Kenya generally had enjoyed strong access to the international capital markets, and staff projections assume that existing Eurobonds will be rolled over once global capital markets reopen to frontier market issuers. This analysis highlights the need for sustained fiscal consolidation to reduce the level of public debt to more prudent levels over the medium term.² The DSA suggests that Kenya is susceptible to export and market financing shocks, and more prolonged and protracted shocks to the economy would also present downside risks to the debt outlook. The current macroeconomic framework reflects currently available information. Updates of the economic impact and policy response to the COVID-19 crisis are rapidly evolving and global risks are heavily tilted to the downside.

¹ IMF Country Report No. 18/295 (October 2018) contains the previous DSA conducted jointly with the World Bank.

² Kenya's debt-carrying capacity remains strong, as its CI, at 3.12 based on October 2019 WEO, remains above the upper threshold value of 3.05.

PUBLIC DEBT COVERAGE

1. Kenya's public debt includes obligations of the central government. Debt data include both external and domestic obligations and guarantees. The external DSA covers external debt of the central government and the central bank, as well as of the private sector; stress tests apply to public and publicly guaranteed (PPG) debt. The public DSA covers both external and domestic debt incurred or guaranteed by the central government; and public domestic debt is comprised of central government debt. In this analysis, total public debt refers to the sum of public domestic and public external debt, however, it does not cover the entire public sector such as extra-budgetary units and county governments.³ Since the DSA coverage does not include debt of non-guaranteed state-owned enterprises (SOEs), an additional 2 percent of GDP is added to the contingent liability test. Contingent liabilities also include 5 percent of GDP for a loan default financial market shock, which is above the existing stock of financial sector NPLs. The debt coverage excludes legacy debt of the pre-devolution county governments (whose size is modest), and non-guaranteed debt of SOEs. The DSA uses a currency-based definition of external debt, as nonresidents' direct participation in the domestic debt market, at about one percent of total outstanding government securities, is not significant.

Kenya: Public Debt Coverage			
Subsectors of the public sector		Sub-sectors covered	
1	Central government		X
2	State and local government		
3	Other elements in the general government		
4	o/w: Social security fund	X	
5	o/w: Extra budgetary funds (EBFs)		
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X	
7	Central bank (borrowed on behalf of the government)	X	
8	Non-guaranteed SOE debt		
1 The country's coverage of public debt		The central government plus social security, central bank, government-guaranteed debt	
		Default	Used for the analysis
			Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0
4	PPP	35 percent of PPP stock	0.0
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0
Total (2+3+4+5) (in percent of GDP)			7.0
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included in the government debt (1), and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.			

BACKGROUND ON DEBT

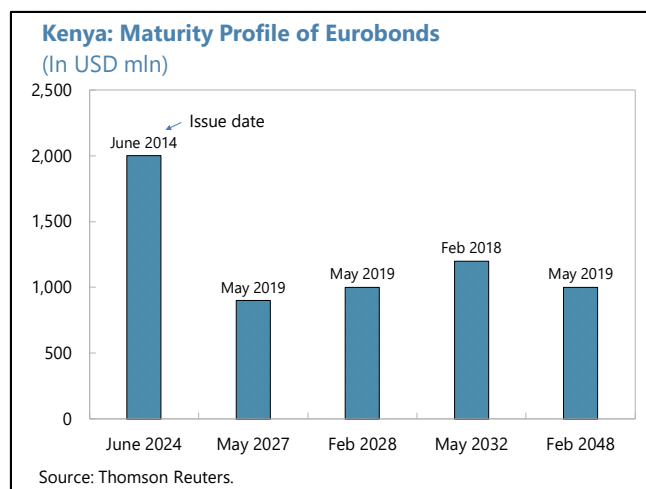
2. Kenya's overall public debt has increased in recent years. Gross public debt increased from 50.2 percent of GDP at end-2015 to an estimated 61.7 percent of GDP at end-2019, reflecting, among other factors, high deficits in the past, partly due to large infrastructure projects. About half of Kenya's public debt is owed to external creditors.

³ County governments have not been allowed to borrow without government guarantee since 2010 while extra-budgetary units face no such constraint.

3. Most of Kenya’s external public debt remains on concessional terms, but its commercial component has increased. Nominal PPG external debt at end-2019 was about 31½ percent of GDP evenly divided among multilateral, bilateral, and commercial creditors.

- At end-2019, multilateral creditors accounted for about 33½ percent of external credit to Kenya while debt from bilateral creditors accounted for 33 percent. Of Kenya’s bilateral debt, about 72 percent is owed to non-Paris Club members, mainly due to loans from China to finance construction of the Standard Gauge Railway project (SGR).

- Kenya’s reliance on commercial financing has increased. Commercial debt (mainly Eurobonds and syndicated loans) accounted for about 33 percent of external public debt at end-2019, up from 22¾ percent at end-2015. Existing Eurobonds, US\$6.1bn in total, accounted for 60 percent of commercial debt at end-2019. In June 2014, Kenya issued its inaugural sovereign Eurobonds, at 5-year and 10-year maturities, raising US\$2 billion in June and a further US\$750 million in December 2014.⁴ In February 2018, Kenya raised an



additional US\$2 billion in a new sovereign Eurobond issue,⁵ followed by another sovereign bond issue of US\$2.1 billion in May 2019.⁶ Another major type of commercial borrowing is syndicated loans. In October 2015, Kenya contracted a two-year US\$750 million syndicated loan at LIBOR plus 570 basis points, equivalent to an effective yield of 8 percent. Payment for nearly 90 percent of this syndicated loan was extended to April 2018 reflecting delays in the issuance of a planned Eurobond due to the protracted election period. In February 2018, the maturity of the syndicated loan was extended to seven years. In 2019, Kenya contracted a 10-year US\$250 million syndicated loan in January and a 9-year US\$1.25 billion syndicated loan in February for refinancing purposes.

⁴ The June 2014 issuance comprised two tranches: a five-year \$500 million bond at a coupon of 5.875 percent, and a 10-year \$1.5 billion bond at 6.875 percent. In December 2014, Kenya added \$250 million to the five-year tranche at a 5.0 percent yield and \$500 million to the 10-year tranche at 5.9 percent. In June 2019, the \$750 million five-year tranche matured.

⁵ The February 2018 issuance comprised two tranches: a 10-year \$1 billion bond at a coupon of 7.25 percent and a 30-year \$1 billion bond at 8.25 percent.

⁶ The May 2019 issuance comprised two tranches: a 7-year \$900 million bond at a coupon of 7 percent and a 10-year \$1.2 billion bond at 8 percent.

Kenya: External Public Debt

	2015		2016		2017		2018		2019	
	US\$bn	Share	US\$bn	Share	US\$bn	Share	US\$bn	Share	US\$bn	Share
Multilateral creditors	7.3	46.5	7.6	41.2	8.2	35.8	8.6	32.1	10.2	33.4
Bilateral creditors	4.7	29.8	6.3	33.8	7.6	33.3	8.8	32.8	10.1	33.0
Commercial creditors	3.6	22.7	4.5	24.2	6.9	30.1	9.2	34.4	10.2	33.1
Others (supplier credits)	0.2	1.0	0.1	0.8	0.2	0.7	0.2	0.6	0.2	0.5
Total	15.8	100	18.5	100	22.8	100	26.7	100	30.7	100

Source: Kenyan National Treasury.

4. Kenya's domestic public debt was 30.2 percent of GDP at end-2019. Domestic debt is issued mostly in the form of Treasury bonds (about 70 percent in total stock) and Treasury bills. The 91-day, 182-day and 364-day average interest rates were 7.3 percent, 8.1 percent and 9.2 percent respectively in March 2020. The average time to maturity for government domestic debt securities was 5¾ years at end-2019. About half of government domestic debt securities are held by commercial banks, followed by pension funds.

UNDERLYING ASSUMPTIONS

5. Under the baseline scenario, solid growth is expected over the medium term. Despite a slowdown in 2020 related to the global shock caused by the COVID-19 crisis, medium- to long-term growth prospects remain favorable. Key investment projects, improved public investment management, and improvements in the business environment should support growth of 5.8 percent in the medium to long term. Inflation is expected to remain close to the middle of the authorities' target range in the near and medium term.

6. The fiscal deficit declined from a peak of 9.1 percent of GDP in 2016/17 to 7.8 percent of GDP in 2018/19. Tax revenues have gradually declined since 2013/14 as a share of GDP, reaching their lowest level of the past 10 years in 2017/18. Tax revenues in 2018/19 slightly improved by 0.3 percentage points of GDP to 15.1 percent of GDP, while non-tax revenues were 0.2 percentage points of GDP less than in 2017/18. Kenya's revenue performance remains in line with the regional average. The decline in the deficit since 2016/17 was mainly achieved through spending cuts to both current outlays and development spending. Over the long term, the overall deficit is expected to decline and stay around 3.2 percent of GDP, with the primary deficit at around 0.3 percent of GDP. Regarding the financing mix for the medium term, as financing needs as a share of GDP decline and the domestic capital markets further deepen, gross external financing as a share of GDP is expected to gradually decline with a relatively stable grant element of new borrowing. As Kenya generally had enjoyed strong access to the international capital markets, staff projections assume resumption of market access once global capital markets reopen to frontier market issuers and additional Eurobonds will be issued to meet financing needs and maintain a market presence.

Kenya: External Borrowing Program (2020)		
PPG external debt contracted or guaranteed	Volume of new debt, US million 1/	Present value of new debt, US million 1/
Sources of debt financing		
Concessional debt, of which 2/	2,208	1,084
Multilateral debt	1,699	779
Bilateral debt	509	305
Non-concessional debt, of which 2/	1,813	1,266
Semi-concessional debt 3/	1,753	1,206
Commercial terms 4/	60	60
<i>Memorandum items</i>		
Indicative projections		
Year 2	5600	4400-4700
Year 3	5300	4100-4400
1/ Contracting and guaranteeing of new debt. The present value of debt is calculated applying the 5 percent program discount rate.		
2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.		
3/ Debt with a positive grant element which does not meet the minimum grant element.		
4/ Debt without a positive grant element. For commercial debt, the present value would be defined as nominal/face value.		

7. The current account deficit is estimated to have narrowed to 4.5 percent of GDP in 2019, mainly reflecting a reduced oil imports bill due to lower global oil prices, and lower capital imports after the completion of the SGR. Remittances are expected to have remained stable at 3 percent of GDP. In 2020, the positive impact from lower global energy prices is expected to contain the current account deficit despite a decline in exports such as agriculture and tourism on account of the COVID-19 crisis. In future years, staff projects a stable current account deficit, supported by stable exports (such as tea, horticulture, and tourism), and stable import growth as the pace of development expenditure, which has a high import intensity, stabilizes. Inward FDI inflows are expected to finance close to one third of the current account deficit throughout the projection period.

8. The realism tools flag some optimism compared to historical performance, but staff is of the view that the projections are reasonable. The baseline scenario assumes an improvement of the primary balance of 2 percentage points of GDP over the next three years, which falls in the middle of the distribution for LICs. Staff is of the view that this is realistic and in line with the authorities' plan for fiscal consolidation after the global shock is over. Slightly higher growth of exports compared to the historical average can be justified as exports recover from the early 2019 drought and the global shock in 2020, Kenya's improving business environment, key infrastructure projects coming to completion including the railways, large potential in a range of agricultural products (e.g., avocados), and the Big 4 Agenda push to stimulate manufacturing with a strong export emphasis. In addition, oil production is expected to begin in 2023 and boost exports (these are excluded from the baseline). Compared to previous DSAs, the projected

contribution of public investment to real GDP growth is in line with the previous DSA and below its historical contribution.

Kenya: Selected Macroeconomic Indicators							
	2013	2014	2015	2016	2017	2018	2019
	Actual						Est.
Real GDP growth (percent)	5.9	5.4	5.7	5.9	4.8	6.3	5.4
CPI inflation, average (percent)	5.7	6.9	6.6	6.3	8.0	4.7	5.2
CPI inflation, eop (percent)	7.1	6.0	8.0	6.3	4.5	5.7	5.8
Current account balance (percent of GDP)	-8.8	-10.4	-6.7	-4.9	-6.2	-5.0	-4.5
Overall fiscal balance (percent of GDP) ¹	-5.2	-6.1	-8.4	-7.4	-9.1	-7.4	-7.8
Gross international reserves (in billions of US\$)	6.4	8.0	7.5	7.5	7.1	8.1	9.1
Gross international reserves (months of imports)	3.8	5.4	5.6	4.7	4.2	4.8	6.2
Total public debt (gross, percent of GDP)	44.5	45.9	50.2	54.5	56.9	60.2	61.7
Private investment (percent of GDP)	14.3	17.2	15.1	8.9	10.2	9.3	10.0
Credit to the private sector (y/y growth, percent)	20.1	22.2	17.3	4.4	2.5	2.4	7.1

Sources: Kenyan authorities and IMF staff estimates and projections.

¹ Fiscal years (e.g., 2018 refers to FY 2017/18).

Kenya: Selected Macroeconomic Assumptions						
	2017	2018	2019	2020	2021	Long-term 1/
Real GDP Growth						
Current DSA	4.8	6.3	5.4	0.8	5.5	5.8
Previous DSA (October 2018)	4.9	5.7	6.0	6.2	6.5	6.0
Primary Fiscal Deficit (percent of GDP)						
Current DSA	4.5	3.7	4.0	4.1	3.1	0.3
Previous DSA (October 2018)	4.8	2.6	0.5	-0.4	-0.4	0.9
Non-interest Current Account (percent of GDP)						
Current DSA	5.0	3.5	2.9	2.9	2.8	2.8
Previous DSA (October 2018)	5.1	4.8	4.1	3.8	4.0	2.5

Source: IMF staff estimates.

1/ For current DSA, average 2026-40. For previous DSA, average 2023-37.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. Kenya's debt carrying capacity is strong. The composite indicator (CI), which captures the impact of various factors through a weighted average of an institutional indicator,⁷ real GDP growth, remittances, international reserves, and world growth, shows that Kenya's debt carrying capacity is strong. Kenya's CI based on the October 2019 WEO and the World Bank's 2018 CPIA is 3.12, above the threshold value of 3.05. The debt carrying capacity, in turn, determines the PPG external debt thresholds and total public debt benchmarks.

⁷ The World Bank's Country Policy and Institutional Assessment (CPIA).

exceeds its threshold over 2020–2028 and 2031–2032 partly due to lower exports and higher deficits caused by the global shock in 2020 and debt amortization profile. However, the debt service-to-exports ratio remains below the threshold afterwards.

13. Applying standard stress tests results in longer breaches in the PV of debt-to-exports ratio, debt service-to-exports ratio, and one-off breach of debt-service-to-revenue ratio relative to the thresholds (Figure 1 and Table 1). Specifically, under the most extreme shock scenario (i.e., a shock to export growth), the PV of debt-to-exports breaches the threshold over the projection period, by a large amount for some years. Furthermore, under the most extreme shock scenario (i.e., a shock to export growth), the debt service-to-exports ratio also exceeds the threshold over the projection period. The debt service-to-revenue ratio under all scenarios is below the threshold, except for a single one-off breach under the most extreme scenario in 2024.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

14. Under the baseline scenario, total public debt as a share of GDP is expected to increase through 2022 on the back of the COVID-19 crisis, and then gradually decline over the medium-to-long term and remains firmly below the benchmark in PV terms (Figure 2 and Table 2). Public sector debt is projected to increase from 61.7 percent in 2019 to 69.9 percent in 2022, followed by a gradual decline. It remains strictly below the benchmark of 70 percent of GDP in PV terms. The PV of public debt-to-revenue ratio would increase from 313.9 percent in 2019 to 357.4 in 2022 before easing to 282.7 percent in 2030 and further to 190.7 percent in 2040. The debt service-to-revenue ratio is expected to remain stable in the longer term.

15. The alternative scenarios indicate that the PV of debt-to-GDP ratio would remain below the indicative benchmark most of the time (Figure 2 and Table 2). Under the most extreme shock scenario (i.e., a shock to the primary balance), the PV of the public debt-to-GDP ratio would breach the benchmark by a marginal amount in 2022–2024.

RISK RATING AND VULNERABILITIES

16. This DSA finds that Kenya’s risk of debt distress has moved to high from moderate in the context of the ongoing global economic turmoil associated the COVID-19. The worsening of the global environment caused by the COVID-19 crisis has led to a sharp decline in export growth and Kenya’s economic growth. Addressing the crisis has triggered a strong fiscal response from the authorities that will also increase budget deficits. In light of these developments, a number of debt indicators have worsened. Kenya’s external and public debt vulnerabilities also reflect the high deficits in the past, partly due to large infrastructure projects. There are breaches of both the solvency and liquidity indicators under the baseline scenario, i.e., the PV of external debt-to-exports and external debt service-to-exports ratios. The model-

based mechanical external and overall risk of debt distress is “high”, as it was in the October 2018 DSA.⁸ It should be noted that one large breach of the one liquidity indicator in 2024 under the baseline is mainly attributed to Kenya’s Eurobond repayment, and Kenya should be able to roll it over, given the historical record of strong market access when global capital markets reopen to frontier market issuers. Now the breach of the solvency indicator and the longer breaches of the liquidity indicator indicate that Kenya’s external debt and overall debt distress is high. The DSA suggests that Kenya is susceptible to export and market financing shocks (Figure 5) and more prolonged and protracted shocks to the economy would also present downside risks to the debt outlook, including from the continued potential loss of market access for frontier economies at reasonable prices, thus raising the probability that the debt indicators would remain in breach of the thresholds over time.

17. Kenya’s debt remains sustainable, and its debt indicators are expected to improve when the global economy rebounds from the COVID-19 crisis. Kenya’s PV of external debt as a share of GDP will gradually decline over time, remaining well below the 55 percent indicative threshold. Kenya’s external debt indicators are expected to improve as the authorities are committed to fiscal consolidation and exports are expected to recover after the global shock dissipates and Kenya further unlocks its substantial export potential. Stable and strong remittances would continue to be an important source for foreign currency receipts; and reserves are at a comfortable level.

18. The authorities are encouraged to further strengthen their debt management capacity to manage and prepare for large repayments on commercial borrowing. As part of this strategy, it is expected that the authorities will have a strategy on near-term external refinancing and over the next years, refinance loans at a longer maturity to limit refinancing risks. At the same time, concessional borrowing should continue to play an important role in financing investment projects due to its lower cost and longer maturity profile, while non-concessional borrowing should be limited to finance those projects with high social and economic returns. Kenya has about US\$10 billion of committed but undisbursed official development assistance. To avoid commitment fees on undisbursed funds and reduce reliance on commercial financing, measures should be taken to unblock this low-cost financing. Looking ahead, public investment in infrastructure will be critical to raise growth and export potential, both of which will support Kenya’s external debt sustainability. Delivering on fiscal consolidation is essential to further reduce risks. At the same time, the authorities are encouraged to expand the coverage of public debt to include county governments, extra budgetary units, and non-guaranteed SOE debt, and continue improving public debt management and revenue administration, which will be key to maintaining debt sustainability.

⁸ The October 2018 DSA found that in the baseline external debt service to exports exceeded the high-risk threshold for two years and that the ratio of debt service to exports touched the threshold for one year, which made the mechanical external risk of debt distress high. There was also a breach of the present value of external debt to exports in the stress test scenario. Given that the baseline breaches were temporary and related to a bullet Eurobond repayment, and in view of Kenya’s strong access to international markets and a comfortable level of reserves, the final risk of debt distress was assessed as moderate with the use of judgement.

AUTHORITIES' VIEWS

19. The authorities acknowledged that the indicators of debt level and debt services had deteriorated, noting the adverse impact of the global economic shock and the increased utilization of external commercial financing in the recent past. They agreed that sustained fiscal consolidation to reduce deficits, increasing the utilization of committed concessional financing and reducing uptake of new external commercial financing were important to strengthen debt sustainability. At the same time, they pointed out the large uncertainties in the outlook for economic growth and the external environment, which makes a precise evaluation of debt distress risk ratings difficult at this juncture and thus the use of judgement more warranted to maintain the pre-COVID-19 rating. The authorities noted the importance of expanding debt coverage to include counties, non-guaranteed debt contracted by the extra budgetary units, and SOEs. They planned to take a gradual approach to monitoring contingent liabilities, for example, to start to monitor external borrowing by large SOEs. The authorities noted that they were actively seeking to lengthen maturities and avoid bunching of repayments to limit refinancing risks, while pointing out the existence of a large liquidity buffer at the Central Bank of Kenya including the remaining deposits from last year's Eurobond issuance.

Table 1. Kenya: External Debt Sustainability Framework, Baseline Scenario, 2017–2040

(In percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040	Historical	Projections
External debt (nominal) 1/	46.1	47.9	46.8	47.2	45.9	44.3	43.0	41.3	41.5	41.8	42.0	41.7	41.8	41.6	38.6	28.6	42.9
of which: public and publicly guaranteed (PPG)	28.8	30.6	31.5	33.0	34.0	34.2	34.2	33.8	32.6	31.7	30.9	29.5	28.6	27.6	17.4	15.5	31.8
Change in external debt	6.2	1.8	-1.1	0.4	-1.3	-1.6	-1.4	-1.7	0.2	0.3	0.2	-0.3	0.1	-0.1	-0.3		
Identified net debt-creating flows	-0.1	-1.3	-0.4	3.4	0.9	0.7	0.9	1.0	1.1	1.0	1.0	0.9	0.8	0.8	1.3	3.4	1.1
Non-interest current account deficit	5.0	3.5	2.9	2.9	2.8	2.8	2.9	3.0	2.9	2.9	2.9	2.8	2.7	2.7	3.1	5.6	2.9
Deficit in balance of goods and services	10.9	9.8	9.1	8.0	8.2	8.3	8.4	8.3	8.3	8.3	8.2	8.2	8.1	8.1	8.0	11.8	8.2
Exports	13.2	13.2	12.3	9.3	10.7	10.7	10.8	10.9	10.9	11.0	11.1	11.2	11.2	11.3	12.9		
Imports	24.2	23.0	21.4	17.3	18.9	19.1	19.2	19.2	19.2	19.3	19.3	19.4	19.4	19.4	20.9		
Net current transfers (negative = inflow)	-5.6	-5.7	-5.7	-5.0	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.6	-5.7	-5.7	-6.3	-5.6	-5.5
of which: official	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	-0.3	-0.6	-0.6	-0.1	0.1	0.0	0.0	0.2	0.1	0.1	0.2	0.2	0.3	0.4	1.4	-0.6	0.1
Net FDI (negative = inflow)	-1.3	-1.7	-1.2	-0.7	-0.9	-1.0	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.0	-0.8	-1.4	-1.0
Endogenous debt dynamics 2/	-3.8	-3.2	-2.2	1.2	-1.0	-1.2	-1.0	-1.0	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-1.0		
Contribution from nominal interest rate	1.2	1.4	1.6	1.6	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.3	1.1		
Contribution from real GDP growth	-1.7	-2.6	-2.4	-0.3	-2.4	-2.6	-2.4	-2.3	-2.2	-2.2	-2.3	-2.2	-2.2	-2.2	-2.1		
Contribution from price and exchange rate changes	-3.3	-2.0	-1.4	—	—	—	—	—	—	—	—	—	—	—	—		
Residual 3/	6.3	3.1	-0.7	-3.0	-2.2	-2.3	-2.3	-2.6	-0.9	-0.7	-0.8	-1.2	-0.7	-1.0	-1.6	0.5	-1.6
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	—	—	27.6	26.8	27.9	27.8	27.6	27.2	26.0	25.1	24.3	23.0	22.1	21.2	12.5		
PV of PPG external debt-to-exports ratio	—	—	225.2	288.1	260.6	258.5	255.2	249.4	237.7	228.8	219.0	205.5	196.2	187.3	96.6		
PPG debt service-to-exports ratio	17.0	19.6	31.4	27.5	25.9	25.5	24.4	36.1	24.1	22.8	21.9	24.8	19.8	19.6	9.4		
PPG debt service-to-revenue ratio	12.5	14.4	21.3	14.5	15.9	15.7	14.8	22.0	14.7	14.0	13.6	15.6	12.6	12.6	6.5		
Gross external financing need (Million of U.S. dollars)	14,462	15,845	12,905	13,723	10,962	10,916	10,523	12,319	14,559	15,867	17,411	18,147	17,231	17,405	28,933		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	4.8	6.3	5.4	0.8	5.5	6.1	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.3
GDP deflator in US dollar terms (change in percent)	9.0	4.5	3.1	6.4	0.8	2.6	2.6	2.5	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.7
Effective interest rate (percent) 4/	3.3	3.5	3.7	3.5	3.1	3.3	3.4	3.3	3.7	3.7	3.6	3.6	3.5	3.5	3.0	8.8	3.5
Growth of exports of G&S (US dollar terms, in percent)	5.4	10.9	0.9	-18.7	22.3	9.1	9.1	9.4	8.8	8.8	9.7	9.2	9.2	9.2	10.5	5.0	7.8
Growth of imports of G&S (US dollar terms, in percent)	18.3	6.0	0.9	-13.3	16.3	9.4	9.1	8.8	8.6	8.6	8.7	8.6	8.6	8.5	9.5	6.7	7.4
Grant element of new public sector borrowing (in percent)	—	—	—	41.1	19.3	22.1	22.7	17.1	25.9	27.1	26.8	28.6	29.4	28.6	33.2	—	26.3
Government revenues (excluding grants, in percent of GDP)	17.9	18.0	18.0	17.7	17.4	17.5	17.8	17.9	17.9	17.9	17.8	17.8	17.7	17.7	18.6	17.0	17.7
Aid flows (in Million of US dollars) 5/	982.7	1066.8	1196.6	2627.7	2136.1	2274.1	2330.5	2368.5	2322.8	2655.9	2830.7	3007.6	3191.5	3374.7	5990.7		
Grant-equivalent financing (in percent of GDP) 6/	—	—	—	2.0	1.4	1.3	1.3	1.2	1.0	1.1	1.1	1.1	1.1	1.1	0.8		
Grant-equivalent financing (in percent of external financing) 6/	—	—	—	46.6	24.8	27.7	28.2	21.7	33.1	33.7	33.4	35.6	36.7	36.0	44.3		
Nominal GDP (Million of US dollars)	79,010	87,824	95,385	102,214	108,702	118,237	128,276	139,123	150,866	163,492	177,378	192,387	208,718	226,367	510,898		
Nominal dollar GDP growth	14.2	11.2	8.6	7.2	6.3	8.8	8.5	8.5	8.4	8.4	8.5	8.5	8.5	8.5	8.5	10.0	8.2
Memorandum items:																	
PV of external debt 7/	—	—	43.0	41.0	39.8	37.9	36.4	34.9	35.2	35.4	35.1	35.3	35.2	33.6			
In percent of exports	—	—	350.3	440.7	372.0	353.1	336.5	317.6	319.2	320.9	318.9	314.4	313.6	310.8	260.5		
Total external debt service-to-exports ratio	110.4	122.6	96.1	121.3	76.0	68.6	58.6	63.4	71.3	71.6	71.8	68.7	58.6	52.8	25.8		
PV of PPG external debt (in Million of US dollars)	—	—	26342.8	27413.7	30328.2	32830.8	35376.6	37822.8	39216.9	41079.9	43146.5	44196.0	46069.8	48024.5	63701.5		
(PVt-PVt-1)/GDPt-1 (in percent)	—	—	1.1	2.9	2.3	2.2	1.9	1.0	1.2	1.3	0.6	1.0	0.9	0.5			
Non-interest current account deficit that stabilizes debt ratio	-1.2	1.7	4.0	2.5	4.1	4.4	4.2	4.7	2.7	2.6	2.7	3.1	2.6	2.9	3.4		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)](1+g+p+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

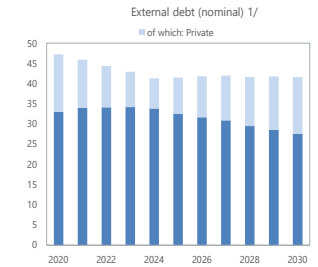
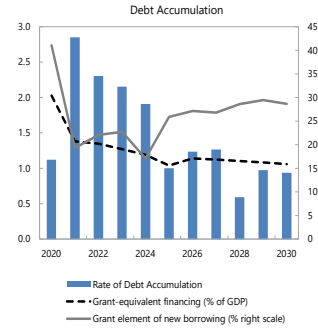


Table 2. Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–2040

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	56.9	60.2	61.7	66.7	69.1	69.9	69.8	68.5	66.7	57.0	40.8	41.2	64.9
of which: external debt	28.8	30.6	31.5	33.0	34.0	34.2	34.2	33.8	32.6	27.6	17.4	15.5	31.8
Change in public sector debt	6.3	3.4	1.5	5.0	2.4	0.8	-0.1	-1.3	-1.8	-1.8	-1.0		
Identified debt-creating flows	0.6	2.1	4.8	5.7	2.5	0.8	-0.1	-1.3	-1.8	-1.7	-1.0	3.9	-0.3
Primary deficit	4.5	3.7	4.0	4.1	3.1	2.1	1.1	0.0	-0.4	0.2	1.1	5.2	0.9
Revenue and grants	18.2	18.2	18.3	18.1	17.8	17.9	18.1	18.2	18.2	18.0	18.9	17.4	18.1
of which: grants	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3		
Primary (noninterest) expenditure	22.7	21.9	22.4	22.2	20.9	19.9	19.2	18.3	17.8	18.2	19.9	22.7	18.9
Automatic debt dynamics	-3.9	-1.6	0.7	1.7	-0.6	-1.2	-1.2	-1.4	-1.4	-1.9	-2.1		
Contribution from interest rate/growth differential	-2.1	-0.9	0.7	1.7	-0.5	-1.0	-1.0	-1.2	-1.2	-1.8	-2.0		
of which: contribution from average real interest rate	0.2	2.5	3.8	2.2	3.0	2.9	2.8	2.7	2.5	1.4	0.3		
of which: contribution from real GDP growth	-2.3	-3.4	-3.1	-0.5	-3.5	-3.9	-3.8	-3.9	-3.7	-3.2	-2.3		
Contribution from real exchange rate depreciation	-1.8	-0.7	0.0	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	5.8	1.3	-3.3	-0.8	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	57.6	61.3	63.4	63.9	63.6	62.2	60.4	50.8	36.0		
PV of public debt-to-revenue and grants ratio	...	...	313.9	338.1	356.6	357.4	351.3	341.2	331.4	282.7	190.7		
Debt service-to-revenue and grants ratio 3/	38.2	42.3	53.5	53.8	68.0	74.5	71.5	78.6	70.4	63.9	41.0		
Gross financing need 4/	11.5	11.4	13.8	13.8	15.2	15.4	14.0	14.4	12.4	11.7	8.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.8	6.3	5.4	0.8	5.5	6.1	5.8	5.8	5.8	5.8	5.8	5.8	5.3
Average nominal interest rate on external debt (in percent)	3.2	3.4	3.9	3.6	3.3	3.5	3.6	3.5	3.7	3.3	2.2	5.0	3.5
Average real interest rate on domestic debt (in percent)	-0.9	7.3	6.7	6.0	8.2	7.4	6.7	6.5	6.1	3.7	1.3	1.7	5.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.2	-2.6	-2.6	...	...	...	...	...	...	...	...	-2.0	...
Inflation rate (GDP deflator, in percent)	10.9	2.4	4.0	8.5	5.0	5.1	5.2	5.1	5.1	5.0	5.0	6.8	5.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.6	2.5	7.7	-0.1	-0.7	1.3	1.9	0.8	3.0	6.3	7.5	6.6	3.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.9	0.3	2.6	-0.9	0.7	1.2	1.2	1.4	1.4	2.0	2.1	0.3	1.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

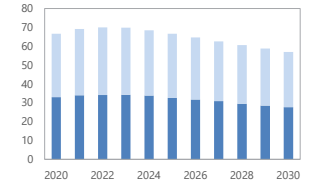
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (i.e., a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated
 ■ of which: foreign-currency denominated



■ of which: held by residents
 ■ of which: held by non-residents

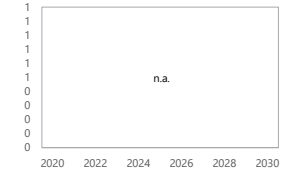


Table 3. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030
(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to-GDP ratio											
Baseline	27	28	28	28	27	26	25	24	23	22	21
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	27	29	30	32	33	33	33	34	34	34	35
B. Bound Tests											
B1. Real GDP growth	27	28	29	28	28	27	26	25	24	23	22
B2. Primary balance	27	29	31	31	30	29	29	28	27	26	25
B3. Exports	27	30	33	32	32	30	29	28	27	25	24
B4. Other flows 3/	27	29	30	30	29	28	27	26	25	23	22
B5. Depreciation	27	35	31	31	31	29	28	27	26	25	24
B6. Combination of B1-B5	27	32	31	31	31	29	29	28	26	25	24
C. Tailored Tests											
C1. Combined contingent liabilities	27	30	30	30	29	29	28	27	26	25	24
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	27	31	31	31	31	30	28	27	25	24	23
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	288	261	258	255	249	238	229	219	206	196	187
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	288	270	283	293	299	301	305	307	305	306	307
B. Bound Tests											
B1. Real GDP growth	288	261	258	255	249	238	229	219	206	196	187
B2. Primary balance	288	268	286	284	278	267	262	252	238	228	219
B3. Exports	288	355	438	431	419	400	385	367	343	325	308
B4. Other flows 3/	288	271	278	274	267	255	245	234	219	209	199
B5. Depreciation	288	261	229	227	222	212	204	195	184	177	170
B6. Combination of B1-B5	288	344	276	361	353	338	326	312	293	280	267
C. Tailored Tests											
C1. Combined contingent liabilities	288	276	277	274	268	261	254	244	230	222	213
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	288	261	259	258	253	242	231	219	203	192	182
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	27	26	26	24	36	24	23	22	25	20	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	27	25	25	24	36	25	24	24	27	24	24
B. Bound Tests											
B1. Real GDP growth	27	26	26	24	36	24	23	22	25	20	20
B2. Primary balance	27	26	26	26	38	26	24	24	27	22	22
B3. Exports	27	33	38	38	55	37	35	35	40	33	32
B4. Other flows 3/	27	26	26	25	37	25	23	23	26	21	21
B5. Depreciation	27	26	26	23	35	23	22	21	23	18	18
B6. Combination of B1-B5	27	32	36	35	50	34	32	32	35	29	28
C. Tailored Tests											
C1. Combined contingent liabilities	27	26	26	25	37	25	24	23	26	21	21
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	27	26	27	28	41	30	38	32	31	17	17
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	14	16	16	15	22	15	14	14	16	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	14	15	15	15	22	15	15	15	17	15	15
B. Bound Tests											
B1. Real GDP growth	14	16	16	15	23	15	14	14	16	13	13
B2. Primary balance	14	16	16	16	23	16	15	15	17	14	14
B3. Exports	14	16	16	16	23	16	15	15	18	14	14
B4. Other flows 3/	14	16	16	15	22	15	14	14	16	13	13
B5. Depreciation	14	20	20	18	27	18	17	16	18	14	14
B6. Combination of B1-B5	14	17	18	17	24	17	16	16	18	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	14	16	16	15	22	15	15	14	16	13	13
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	14	16	16	17	25	18	23	20	20	11	11
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Kenya: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030
(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	61	63	64	64	62	60	58	56	54	53	51
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	61	64	66	69	71	73	75	76	77	78	79
B. Bound Tests											
B1. Real GDP growth	61	65	67	67	66	65	63	61	60	58	57
B2. Primary balance	61	67	72	72	70	68	66	64	61	59	57
B3. Exports	61	65	69	68	67	65	63	60	58	56	54
B4. Other flows 3/	61	64	66	66	64	62	60	58	56	54	52
B5. Depreciation	61	67	65	63	61	58	54	51	49	46	43
B6. Combination of B1-B5	61	64	68	67	65	63	60	58	55	53	51
C. Tailored Tests											
C1. Combined contingent liabilities	61	70	70	70	68	66	64	62	60	58	56
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	61	63	64	64	63	61	59	56	54	52	50
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	338	357	357	351	341	331	321	311	301	292	283
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	338	360	372	380	390	402	411	420	428	435	441
B. Bound Tests											
B1. Real GDP growth	338	364	373	370	362	355	346	339	331	325	317
B2. Primary balance	338	375	405	397	385	374	362	350	340	329	319
B3. Exports	338	368	384	377	366	355	343	332	321	310	299
B4. Other flows 3/	338	363	369	363	352	342	331	320	310	300	290
B5. Depreciation	338	376	366	351	332	316	300	284	269	255	241
B6. Combination of B1-B5	338	358	382	372	358	345	331	318	306	294	282
C. Tailored Tests											
C1. Combined contingent liabilities	338	395	394	386	375	363	351	340	330	320	310
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	338	357	358	353	344	334	322	310	299	289	279
Debt Service-to-Revenue Ratio											
Baseline	54	68	75	71	79	70	68	69	69	66	64
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	54	67	72	71	79	74	76	82	88	89	91
B. Bound Tests											
B1. Real GDP growth	54	69	77	75	82	75	73	75	75	73	71
B2. Primary balance	54	68	80	81	84	81	83	78	76	74	73
B3. Exports	54	68	75	72	80	71	69	71	71	68	66
B4. Other flows 3/	54	68	75	72	79	71	69	70	70	67	65
B5. Depreciation	54	66	74	70	80	70	67	68	68	64	62
B6. Combination of B1-B5	54	66	74	77	79	71	75	71	68	65	65
C. Tailored Tests											
C1. Combined contingent liabilities	54	68	85	76	82	86	76	74	73	74	70
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	54	68	75	74	82	74	77	76	73	64	62

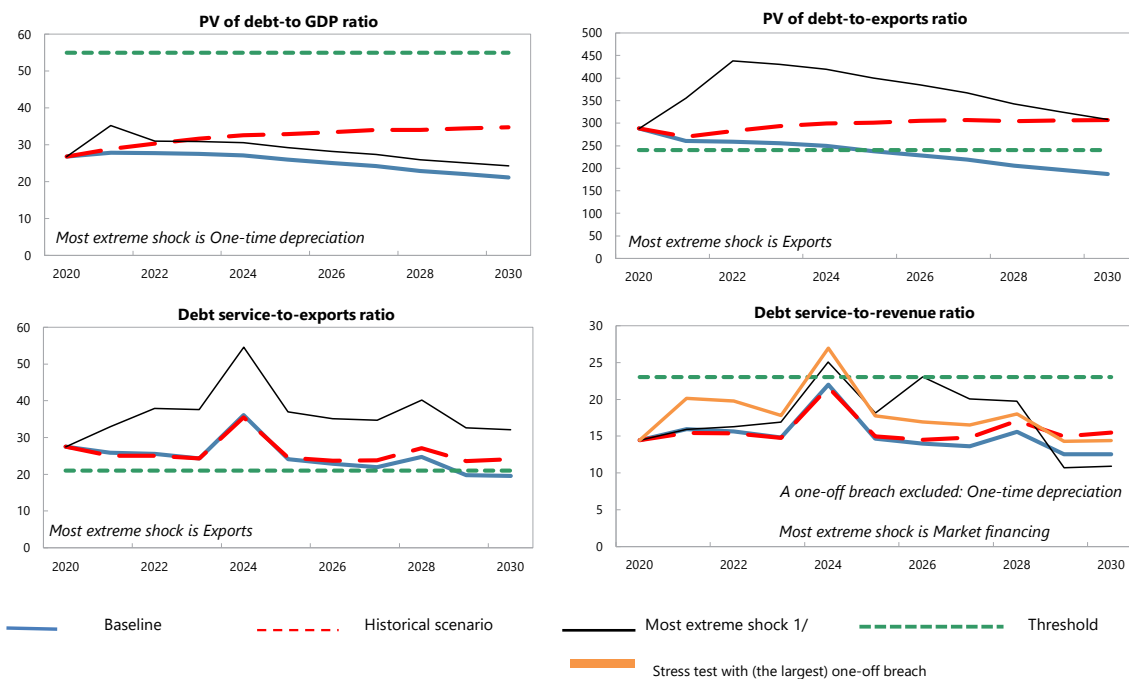
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Kenya: Indicators of Public and Publicity Guaranteed External Debt under Alternatives Scenarios, 2020–2030



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices ^{2/}	n.a.	n.a.
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

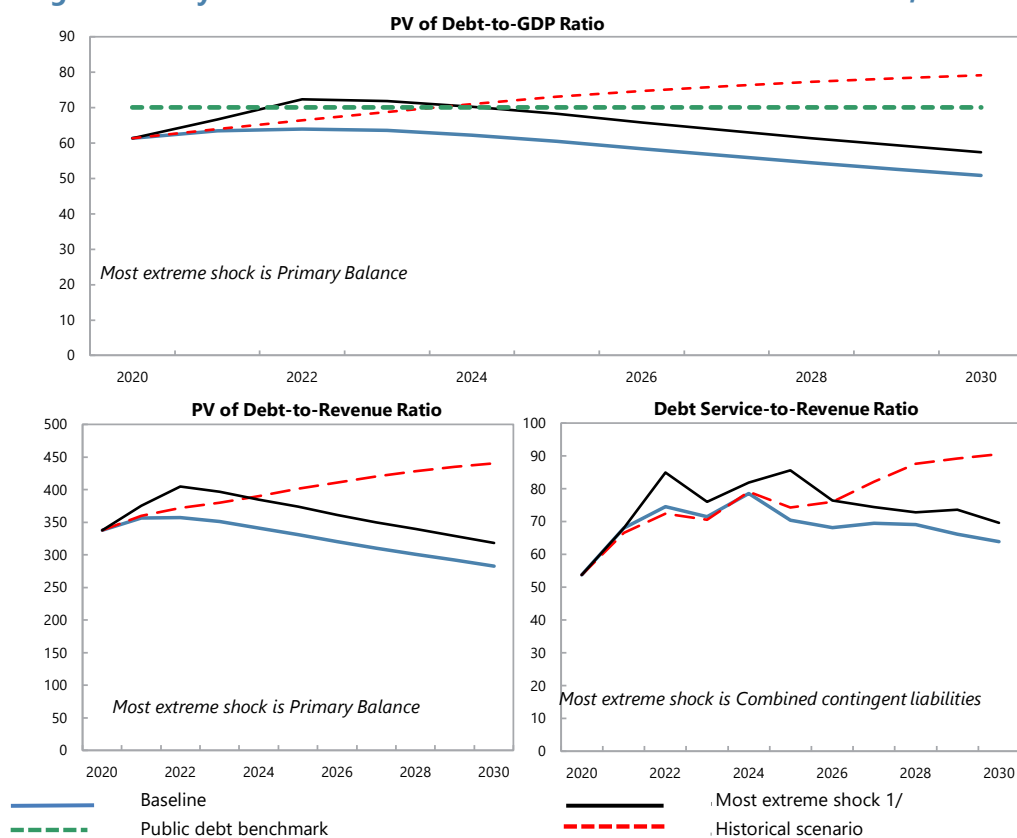
Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.6%	3.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Kenya: Indicators of Public Debt Under Alternative Scenarios, 2020–2030

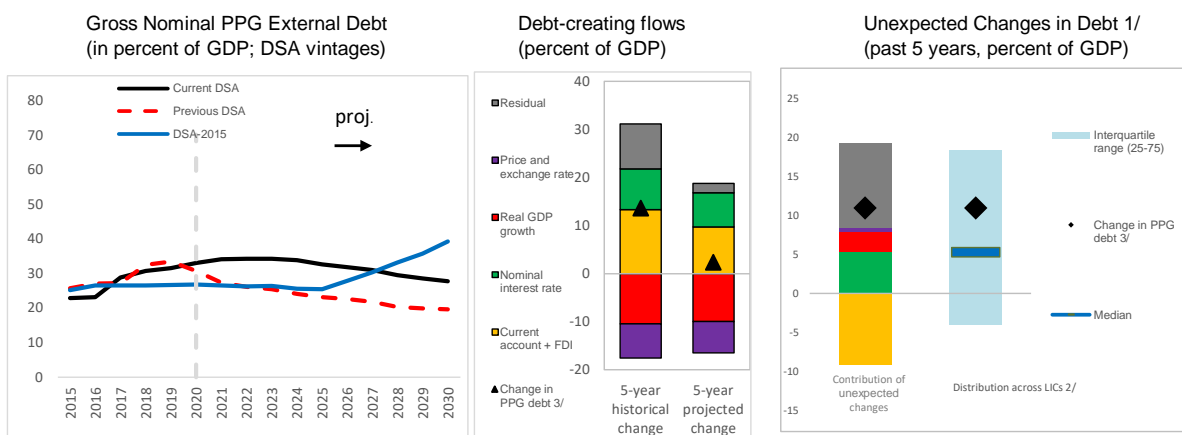
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	27%	27%
Domestic medium and long-term	50%	50%
Domestic short-term	23%	23%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.6%	3.6%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	0%	0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

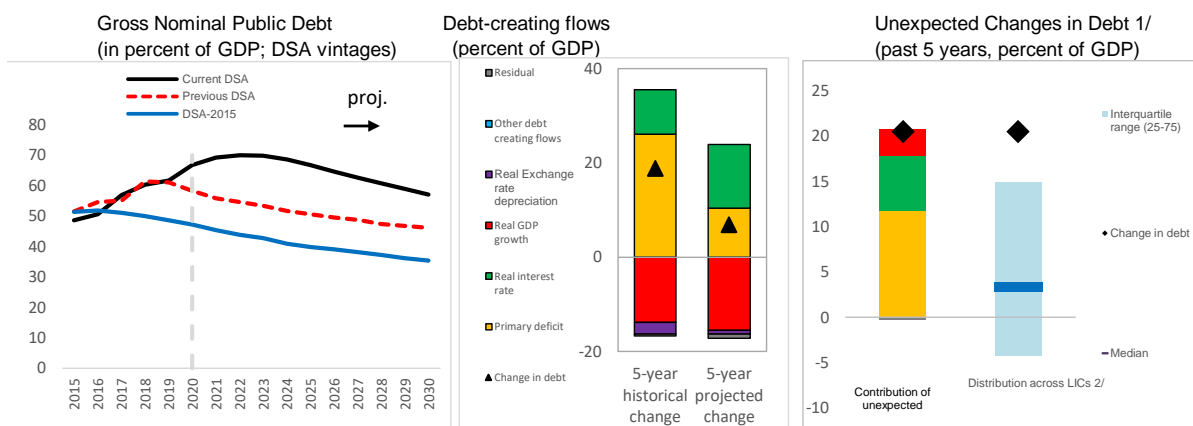
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Kenya: Drivers of Debt Dynamics–Baseline Scenario External Debt



Public debt



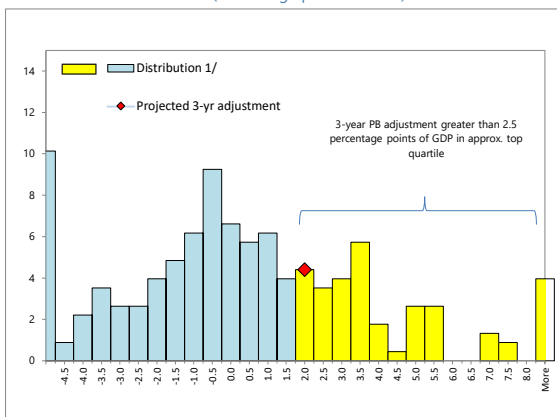
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

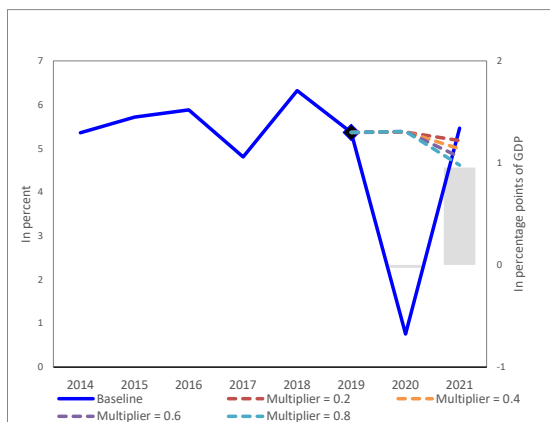
Figure 4. Kenya: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



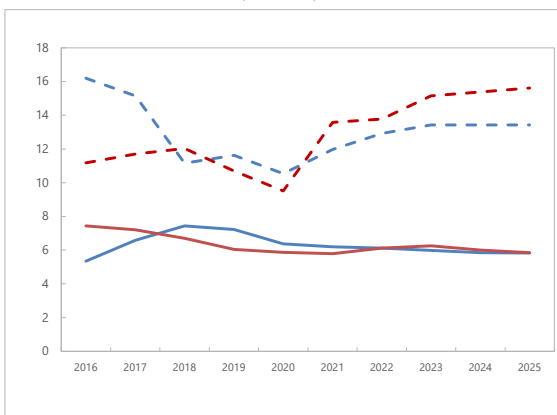
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



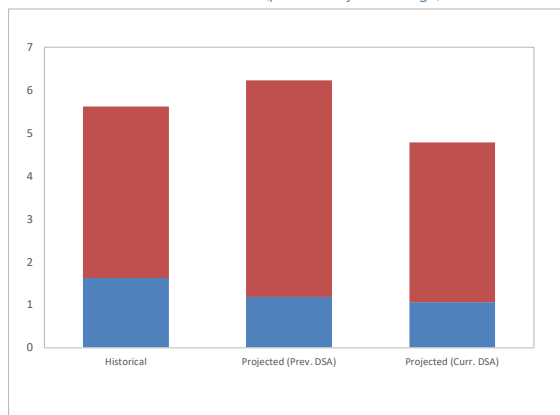
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



— Gov. Invest. - Prev. DSA — Gov. Invest. - Current DSA
- - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Current DSA

Contribution to Real GDP growth
(percent, 5-year average)

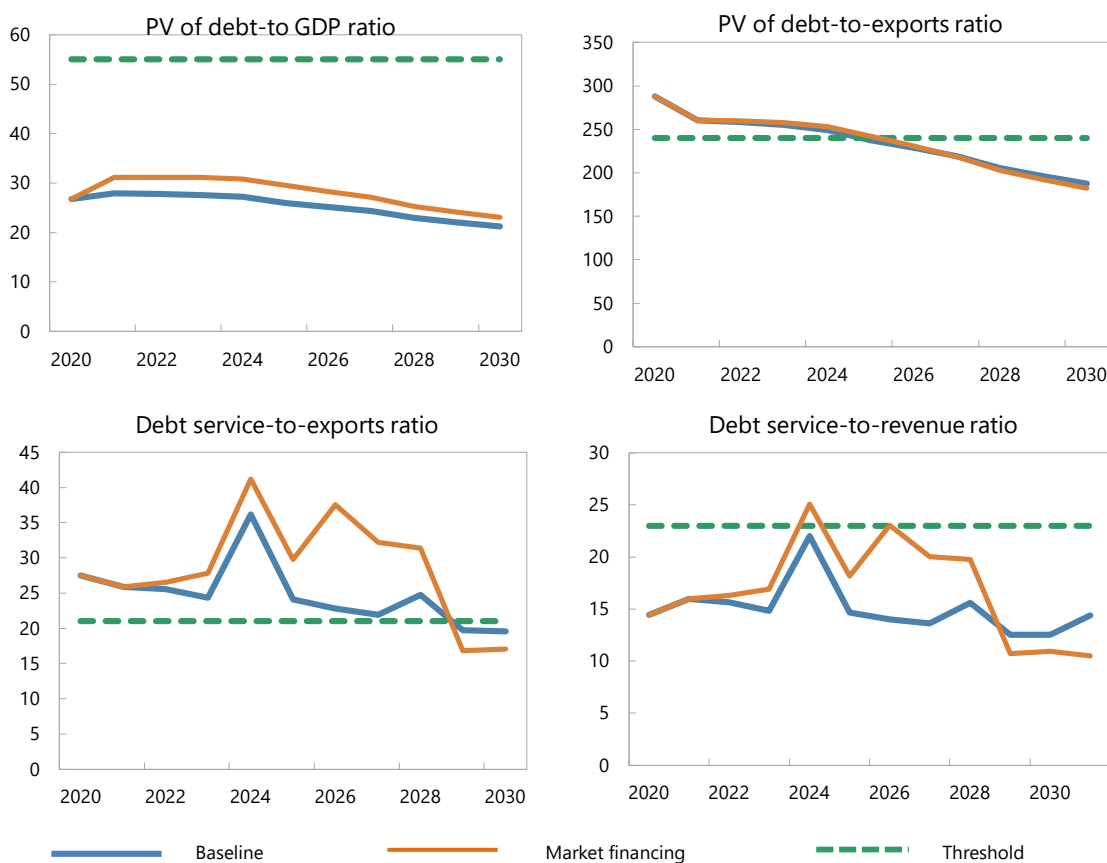


■ Contribution of other factors
■ Contribution of government capital

Figure 5. Kenya: Market-Financing Risk Indicators

	GFN	1/	EMBI	2/
Benchmarks	14		570	
Values	15		880	
Breach of benchmark	Yes		Yes	
Potential heightened liquidity needs	High			

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
 2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

**Statement by Mr. Mahlinza and Mr. Sitima-wina on Kenya
May 6, 2020**

I. Introduction

1. Our authorities thank management and staff for their timely response to the request for emergency financial assistance under the Rapid Credit Facility (RCF).
2. Following a period of robust growth over the last five years, the Kenyan economy is facing a significant economic slowdown emanating from the outbreak of the COVID-19 disease. Consequently, urgent balance of payments and fiscal financing needs have emerged. Against this backdrop, the authorities request emergency financing under the RCF in the amount of SDR 542.8 million, equivalent to 100 percent of quota, to complement their efforts in protecting the population's health and containing the adverse effects of COVID-19 on the economy.
3. To ensure that COVID-19 related resources are used for their intended purpose, the authorities undertake to conduct independent post-crisis auditing of COVID-19 related expenditures and publish the results. In addition, they are committed to implementing the recommendations of the latest safeguards assessment. Kenya's capacity to repay the Fund is strong and public debt remains sustainable.

II. Impact of the COVID-19 Pandemic

4. Kenya registered the first case of COVID-19 on March 12, 2020. As of May 3, the number of COVID-19 cases was at 465 persons. Although the spread of the pandemic is still at its initial staged, the impact on the economy has been severe, with confinement measures posing huge challenges for vulnerable households and the informal sector.
5. Economic activity in the typically resilient and critical services sector has been disrupted significantly, following the pandemic and implementation of domestic containment measures. Consequently, activity in tourism, transportation, wholesale and retail trade has contracted; and remittances have declined, along with exports of tea, coffee and flowers. As a result, real GDP growth is expected to drop significantly compared to pre-COVID projections. The strongest external impact will be felt on the financial account, given the abrupt loss of access to international capital markets, which has severely constrained Kenya's bond issuance plan as well as contracting of new loans. The resultant BOP financing gap is assessed to be about \$2.1 billion equivalent to 2.1 percent of GDP.
6. In addition, the fiscal deficit is expected to worsen 7.8 percent of GDP following a reduction in fiscal revenues and the sizeable increase in expenditures to fight the pandemic and limit its impact on the economy and the vulnerable. The new fiscal deficit target also reflects the annual cost of tax relief measures estimated at 1.7 percent of GDP and savings from realignment of capital expenditures and cancellation of low-priority projects.

7. While Kenya's public debt remains sustainable, the downgrade in the debt risk rating from moderate to high risk of debt distress is purely a consequence of the impact of the global COVID-19 crisis which has exacerbated existing vulnerabilities. Further, the pandemic has dampened exports and economic growth, resulting in a breach of solvency and liquidity indicators thresholds related to exports. This notwithstanding, the authorities expect that Kenya's debt indicators will improve as exports rebound, once the global shock dissipates.

8. Furthermore, banks' asset quality is expected to deteriorate as loan servicing, especially from small and medium-sized enterprises (SMEs), would be affected by limited business activity, as the trading sector accounts for the largest share of bank loans.

III. Policy Responses to the Pandemic

9. In February 2020, the authorities set up an inter-ministerial National Emergency Response Committee to lead the country's response to the COVID-19 pandemic. It has successfully undertaken a wide range of measures to prevent the spread of COVID-19 and protect the population's health. To this effect, immediate response focused on measures to contain the spread of the disease through suspension of all international passenger flights, closure of schools and universities, imposition of social distancing requirements, a night curfew, and restrictions to mobility from the most affected counties. The authorities have also ramped up the capacity of the health system including through establishment of isolation facilities, quarantine of at-risk persons and recruitment of additional health workers.

10. To mitigate the impact of the shock on businesses and vulnerable households, the authorities have instituted significant fiscal measures. Accordingly, the recently approved supplementary budget reflects measures to protect vulnerable groups and increased expenditure for the health sector; cash transfers to the elderly, disabled, and low-income households; and allocations to expedite clearance of unpaid bills to suppliers and VAT refunds. The supplementary budget further provides for tax relief measures to low income earners; reduction of the top marginal tax rate from 30 to 25 percent, the standard corporate income tax rate from 30 to 25 percent, the turnover tax rate on small businesses from 3 to 1 percent and; the standard VAT rate from 16 to 14 percent.

11. The CBK remains committed to ensuring price and financial stability, in line with its mandate. In the current environment, they will continue to track inflation developments and keep monetary policy decisions data-dependent. Further, the authorities remain committed to a flexible exchange rate regime and would limit FX interventions to smoothen excess market volatility. To help support the economy, the CBK recently cut the policy rate and cash reserve ratio by 100 basis points (bps) each, increased reverse repo tenors, and temporarily increased flexibility on banks' loan classification and provisioning requirements. At the same time, commercial banks are extending flexibility on loan terms to borrowers impacted by the pandemic on a case by case basis. Further, mobile network operators are waiving or reducing charges on mobile money transactions to disincentivize use of cash.

IV. Post-crisis Measures

12. Once the crisis abates, the authorities will pursue the previously-planned fiscal

consolidation to reduce macroeconomic vulnerabilities and bring public debt on a downward trajectory. This will be underpinned by an appropriate mix of revenue and expenditure measures aimed at achieving about 3 percent of GDP by 2022/23. They also aim to implement further improvements to public procurement and public expenditure management to allow overall reductions in spending without adversely affecting the quality of service delivery or the achievement of the key objectives of the Big Four Agenda. Once economic activity sufficiently recovers, the authorities will review the tax measures to fully restore revenues as a share of GDP.

13. Further, the authorities look forward to the resumption of discussions on a potential precautionary Stand-By Arrangement (SBA)/Standby Credit Facility (SCF) to support their economic reform program. The reforms seek to support a growth-friendly fiscal adjustment that protects public investment and priority social spending, boost revenue performance, and enhance debt sustainability. This would be complemented by ongoing improvements in the monetary policy framework and the eventual adoption of an inflation-targeting regime. They continue to foster financial stability by enhancing prudential regulations and supervision and, deepening structural reforms.

V. Conclusion

14. Our authorities reiterate their commitment to further strengthening macroeconomic stability and enhancing the resilience of the economy. In this connection, they will pursue gradual fiscal consolidation that ensures public debt sustainability while preserving growth-friendly public investment and social spending. They look forward to Executive Directors' support for a disbursement under the RCF to complement their efforts to contain the spread of the pandemic and dampen its impact on the economy. Our authorities anticipate that Fund financing will catalyze additional grant and concessional financing from development partners to augment ongoing efforts to contain the pandemic and support recovery.