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KENYA

June 2021

FIRST REVIEWS OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUESTS FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND STRUCTURAL CONDITIONALITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KENYA

In the context of the First Reviews of the Extended Arrangement Under the Extended Fund Facility and an Arrangement Under the Extended Credit Facility and requests for modifications of performance criteria and structural conditionality, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 23, 2021, following discussions that ended on May 14, 2021 with the officials of the Kenya on economic developments and policies underpinning the IMF arrangements under the Requests for an Extended Arrangement Under the Extended Fund Facility and an Arrangement Under the Extended Credit Facility. Based on information available at the time of these discussions, the Staff Report was completed on June 10, 2021.
- A **Supplementary Information** of the Staff Report prepared by the IMF.
- A **Statement by the Executive Director** for Kenya.

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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PRESS RELEASE

PR21/195

IMF Executive Board Completes the First Reviews of the Extended Arrangement under the EFF and ECF Arrangements for Kenya

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the first reviews of the EFF/ECF arrangements with Kenya, allowing for an aggregate immediate disbursement equivalent to US$ 407 million for budget support.
- The Kenyan authorities have shown strong commitment to their reform agenda in challenging circumstances and are acting to reduce debt vulnerabilities while maintaining support for the economic recovery.
- They are also moving forward on their governance and structural reform agenda. Recent publication of comprehensive audits of COVID-19 spending has enhanced transparency and accountability.

Washington, DC – June 23, 2021: The Executive Board of the International Monetary Fund (IMF) completed today the first reviews of the 38-month Extended Arrangement under the Extended Fund Facility (EFF) and 38-month arrangement under Extended Credit Facility (ECF) for Kenya. The Board's decision allows for an aggregate immediate disbursement of US$ 407 million (about SDR 285 million), bringing Kenya's total disbursements for budget support under the arrangements to about US$ 714.5 million.

Kenya's EFF and ECF arrangements for a total of SDR 1,655 billion (305 percent of quota) or about US$ 2.34 billion at the time of program approval on April 2 (see Press Release 21/98), are aimed at supporting Kenya's program to address debt vulnerabilities, support the response to the COVID-19 crisis and enhance governance.

Kenya is staging an economic recovery despite a recent third wave of COVID-19 infections. Growth is now estimated to pick up to 6.3 percent in 2021. However, uncertainty and pandemic-related pressures will persist until vaccinations become widely available.

Kenya's economic program aims to reduce debt vulnerabilities through a multi-year fiscal consolidation effort centered on raising tax revenues and tightly controlling spending, while safeguarding resources to protect vulnerable groups. The draft FY21/22 budget delivers on these objectives with a 1.6 percentage points of GDP reduction in the primary balance.

Kenya has also made notable advances on its structural reform and anti-corruption agendas. Fiscal governance and transparency are being bolstered by the recent publication of comprehensive audits of COVID-19 related expenditures. As part of their strategy to address challenges in the SOE sector and put firms on a financially viable footing, the authorities have conducted an in-depth evaluation of the financial health of major state-owned enterprises (SOEs) facing the largest risks. The authorities also plan to further enhance their monetary policy framework and to continue supporting financial stability.

At the conclusion of the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

“The Kenyan authorities continue to demonstrate strong commitment to their fiscal reform agenda during this unprecedented global shock. Performance under the EFF/ECF arrangements has been broadly satisfactory despite a challenging environment. The authorities’ program sets the basis for a return to durable and inclusive growth and identifies a clear path to reduce debt vulnerabilities, while securing space for needed social and development spending. Looking ahead, the authorities should sustain their consolidation efforts by continuing to improve spending efficiency and undertaking further revenue administration and tax policy measures.

“Maintaining momentum on the structural reform agenda is important. The very substantial progress made in assessing the financial situations of state-owned enterprises (SOEs) that pose the largest fiscal risks provides a solid basis for identifying least-cost approaches to address their financial challenges, and should be complemented with efforts to improve oversight and management of SOEs more broadly.

“Important advances are being made on the governance agenda. The recent publication of comprehensive audits of COVID-19 spending, along with the forthcoming disclosure of beneficial ownership information of companies that are awarded procurement contracts, are important steps to strengthen fiscal transparency and accountability in the use of public resources. Going forward, effective follow-up by the appropriate institutions on the findings of the audits will be essential.

“The Central Bank of Kenya (CBK) has provided critical support during a very uncertain period. The stance of monetary policy should remain accommodative as long as inflation and inflation expectations remain well-anchored within the target band. Maintaining close supervision of credit risks and provisioning should continue to be a priority.

“The program remains subject to notable risks, including from uncertainty about the path of the pandemic and potential pressures from the upcoming political calendar. However, Kenya’s medium-term prospects remain positive. Kenya’s strong commitment to its economic program supported by the IMF has catalyzed financing on favorable terms.”

Kenya: Selected Economic Indicators, 2020–23

	2019 Est.	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.
Output					
Real GDP growth (%)	5.4	-0.1	6.3	6.4	6.1
Prices					
Inflation - average (%)	5.2	5.3	5.5	5.0	5.0
Central Government Finances (fiscal year)[1]					
Revenue (% GDP)	18.0	17.2	17.1	17.0	17.7
Expenditure (% GDP)	25.7	25.0	25.7	24.6	23.5
Primary balance (% GDP)	-3.7	-3.5	-4.6	-3.0	-1.1
Fiscal balance (% GDP)	-7.7	-7.8	-8.6	-7.5	-5.8
Public debt (% GDP)	62.0	65.8	70.6	73.0	73.1
Money and Credit					
Broad money (% change)	5.6	13.2	8.5	11.1	11.4
Credit to private sector (% change)	7.1	8.4	9.4	9.6	9.6
Policy rate, end of period (%)	8.5	7.0	…	…	…
Balance of Payments					
Current account (% GDP)	-5.8	-4.6	-5.3	-5.5	-5.5
Reserves (in months of imports)	6.1	4.7	4.8	4.4	4.2
External debt (% GDP)	31.5	35.6	38.5	38.4	37.2
Exchange Rate					
REER (% change)	4.8	-1.5	…	…	…

Source: Kenyan authorities and IMF staff estimates and projections.

[1] Based on fiscal year (i.e., 2020 represents 2019/20).

INTERNATIONAL MONETARY FUND

KENYA

June 10, 2021

FIRST REVIEWS OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUESTS FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND STRUCTURAL CONDITIONALITY

EXECUTIVE SUMMARY

Context. Kenya was hit by a third COVID-19 wave in March and April 2021, with renewed containment measures eased in May as the case count moderated. In mid-May, Kenya's COVID-19 vaccination program faced serious challenges on delays in international vaccine shipments. The authorities are redoubling their efforts to mobilize support and now aim to inoculate 60 percent of the population by mid-2023. General elections are planned for August 2022.

Program status. In April 2021, the IMF's Executive Board approved 38-month arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) in an amount equivalent to 305 percent of quota. The arrangements support Kenya's response to the COVID-19 shock and the authorities' plan to reduce debt vulnerabilities while advancing the structural reform agenda, including strengthening the anti-corruption framework and addressing financial weaknesses in state-owned enterprises (SOEs), and their plans to strengthen the monetary policy framework and support financial stability.

Program performance. The authorities have advanced their reform agenda in a challenging environment, and the program is broadly on track. All end-March 2021 performance criteria (PCs) and the continuous PC and structural benchmarks (SBs) were met. End-March indicative targets (ITs) were missed by narrow margins due to temporary factors not related to changes in policies—which remain fully aligned with the program objectives. Three SBs for April and May were not met, of which two have been subsequently completed, and one is expected to be completed in the coming weeks.

Requests. The Kenyan authorities request modification of (i) the PCs on net international reserves; (ii) the IT on tax collection; and (iii) one end-June 2020 SB on common payroll system across different entities within the public sector.

Risks to the program. As uncertainty remains abnormally high due to the COVID-19 pandemic, with medium-term risks tilted to the downside, the program allows flexibility to address possible near-term challenges, while still achieving program objectives.

Approved By:
Annalisa Fedelino (AFR) and Martin Kaufman (SPR)

The mission team consisted of Mary Goodman (head), Valerio Crispolti, Jehann Jack, Samba Mbaye, Francine Nyankiye, Gabor Pula, Sheriff Touray (all AFR), Plamen Iossifov (SPR), Lahcen Bounader (FAD), Majid Bazarbash (MCM), Pasquale Di Benedetta, Jane Duasing, Alice French, Emmanuel Mathias, Ron Snipeliski (all LEG), James Maina and Kevin Tuitoek (Resident Representative office) with assistance from Fernando Morán Arce (AFR) and Christine Odwogi (IMF Resident Representative in Nairobi Office). The Executive Director Ita Mannathoko and Advisor James Garang (both OED) participated in the discussions. Discussions were held remotely from Washington, D.C. during April 29–May 14, 2021. The team met with Cabinet Secretary for the National Treasury and Planning, Mr. Ukur Yatani; Governor of the Central Bank of Kenya (CBK), Dr. Patrick Njoroge; Deputy Chief of Staff, Executive Office of the President, Ms. Ruth Kagia; Principal Secretary for the National Treasury, Dr. Julius Muia; Deputy Governor of the CBK, Ms. Sheila M'Mbijjewe; and other senior government and CBK officials. Staff also had productive discussions with the parliamentary budget office and representatives of the private sector, civil society organizations, and development partners.

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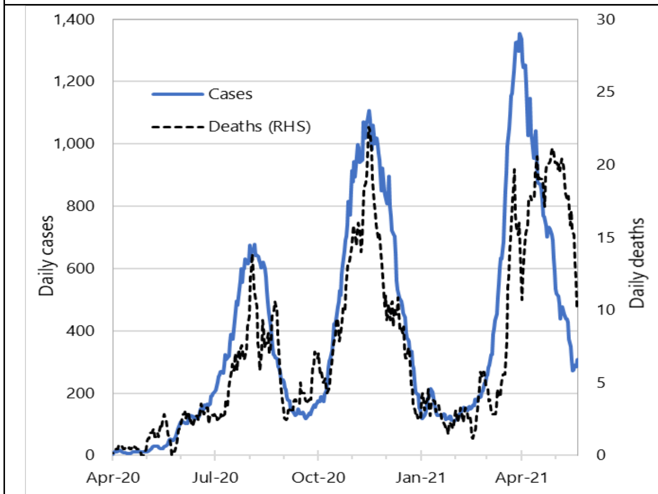
CONTEXT

1. **The third wave of COVID-19 infections that hit Kenya in March-April has eased.** Containment measures introduced at end-March were eased in early May, following moderation in the case count. Ramping up the COVID-19 vaccine rollout faced serious challenges in mid-May as COVAX could not provide contracted doses. The authorities are redoubling efforts to secure additional resources and vaccines to reach their immediate inoculation goals and to cover 60 percent of the population by mid-2023.

COVID-19 Cases

(7-day moving averages)



Source: Kenyan authorities.

2. **The authorities are advancing their reform program in a challenging environment.** Uncertainty remains elevated about the course of the pandemic, and the environment for policymaking is becoming more complex as Kenya moves toward the upcoming presidential election. The initial public response in Kenya to the EFF/ECF-supported program highlighted concerns about debt vulnerabilities and risks of corruption relating to the use of Fund resources. The authorities have maintained their reform momentum, remaining strongly focused on meeting deficit targets and pushing forward their governance and fiscal transparency agenda. In late May, the Auditor General submitted to parliament the results of comprehensive audits covering all COVID-19-related spending by the National Government in FY2019/20 (Text Table). The last of these audits were published on June 10, rather than by end-May (*structural benchmark*).

Government Audits Covering COVID-19-Related Spending

Type	Coverage	Period covered	Date completed
Consolidated audit	National Government	FY2019/20	28-May-21
Special audits on utilization of COVID-19 funds	National Government Entities	13 March to 31 July 2020	25-May-21
	County Governments	13 March to 31 July 2020	22-Dec-20
	Kenya Medical Supplies Authority	13 March to 31 July 2020	29-Sep-20

Source: National authorities.

3. Kenya is entering a busy electoral period. A referendum on constitutional amendments in connection with the Building Bridges Initiative, originally planned for mid-2021, was recently suspended following a High Court ruling declaring the proposed amendments unconstitutional. The government has challenged the Court's decision, and it is unclear when the matter will be resolved. General elections are planned for August 2022.

RECENT ECONOMIC DEVELOPMENTS

4. Economic recovery is underway, although the persistence of the pandemic suggests the 2021 pickup will be less rapid than anticipated. The tightening of containment measures from end-March to early-May 2021 is expected to have only modestly slowed the recovery as restrictions were geographically concentrated and coincided with the annual school holiday. Despite increasing fuel prices, headline inflation (5.9 percent in May) has remained within the target range (2½–7½ percent), benefitting from strong agricultural output. Non-food/non-fuel inflation has remained anchored under 3 percent.

5. The authorities intend to achieve the FY20/21 primary deficit target despite the elevated uncertainty and continuing challenges from COVID-19 (Table 2c).[1] End-March data indicate the primary fiscal deficit stood at KSh134.8 billion (1.2 percent of GDP), significantly smaller than programmed. Continuing under-execution of the budget partly reflected the timeline for mobilizing donor resources (underspending averaged 12 percent in Jan-Mar 2021). Despite full implementation of agreed tax measures, collection was slightly below target by KSh6.5 billion due to continuing dislocation from the pandemic.

Fiscal Developments through End-March 2021

(KSh. billion)

	2019/20	2020/21			
	Jun.	Sep.	Dec.	Mar.	
	Prel.	Prel.	Prel.	Prel.	Program EBS/21/29
Revenues and grants	**1,753.4**	**383.6**	**821.1**	**1,263.6**	**1,314.5**
Revenue	**1,733.6**	**379.7**	**812.6**	**1,245.3**	**1,279.8**
Tax revenue	1,383.9	304.8	642.9	989.7	996.2
Nontax revenue	349.7	74.8	169.7	255.6	283.6
Grants	**19.8**	**3.9**	**8.5**	**18.4**	**34.7**
Project grants	15.2	3.9	7.0	15.0	29.5
Program grants	4.6	0.0	1.5	3.3	5.2
Expenditure and net lending	**2,545.0**	**511.4**	**1,216.9**	**1,820.7**	**2,054.9**
Primary spending	2,107.8	396.1	969.1	1,454.4	1,720.4
Interest payments	437.2	115.3	247.8	366.3	334.4
Adjustments to cash basis		0.0	30.1	56.0	
Overall balance	**-791.5**	**-127.8**	**-365.7**	**-501.1**	**-740.4**
Financing	**791.5**	**129.8**	**361.7**	**487.7**	**740.4**
Net foreign financing	338.5	-22.6	16.7	21.2	81.8
Net domestic financing	453.1	152.4	345.0	466.5	658.6
Memorandum items:					
Primary balance incl. grants	-354.3	-12.5	-117.8	-134.8	-405.9

Source: National Treasury.

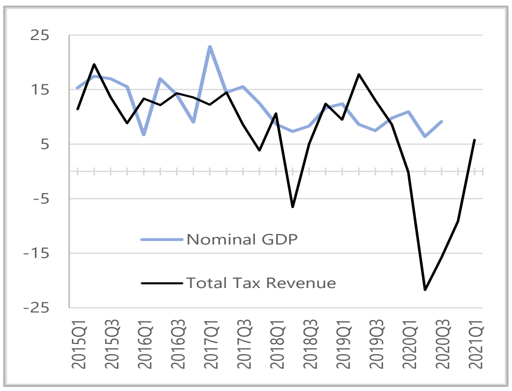
6. On April 19, a Kenyan High Court suspended the implementation of the Corporate Minimum Alternative Tax (CMT) introduced on January 1, 2021. The Court's decision followed a petition from the business community to overturn the tax based on constitutional questions. The Revenue Authority has appealed the ruling and expects a hearing in mid-June. CMT payments are projected at KSh20 billion on an annual basis (0.2 percent of GDP).

[1] Fiscal year is from July 1 to June 30.

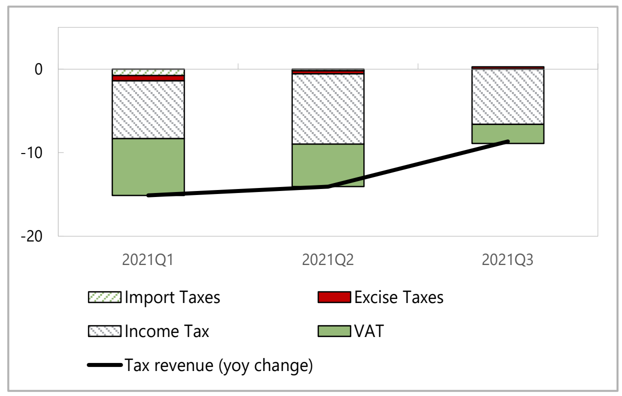
7. The current account has proven resilient notwithstanding the shock. Exports were supported by robust output of horticulture and tea, while a recovery of local demand for industrial supplies raised imports. Remittances remained buoyant, continuing to provide a stable source of foreign exchange. The Shilling has strengthened recently due to foreign inflows spurred by a $766 million infrastructure bond issuance in April.

8. Net international reserves (NIR) remain adequate. At end-March, NIR stood at $6.129 billion, roughly $425 million below end-2020., This is consistent with the program target (EBS/21/29).

Total Tax Revenue and Nominal GDP
(year-on-year percent change)



Tax Revenue Components, July 2020-March 2021
(in percentage points)



Sources: Kenyan authorities and IMF staff calculations.

9. Financial institutions have remained broadly resilient. While credit risk remains elevated due to the pandemic, the banking sector overall is well-capitalized, liquid, and profitable. Regulatory ratios stood well above the statutory requirements at end-March 2021, with the risk-weighted capital adequacy ratio at 18.8 percent and liquidity ratio at 56.3 percent. Private sector credit grew by 7.7 percent y-o-y in March. However, the pandemic exacerbated asset quality weaknesses, and the non-performing loan (NPL) ratio reached 14.2 percent at end-April 2021 from 12.5 percent at the beginning of the pandemic (March 2020). The share of non-provisioned NPLs in gross loans stood at a manageable 5.7 percent at end-March 2021.

PROGRAM PERFORMANCE

10. Program performance has been broadly satisfactory in a challenging environment. Delays were observed in some areas and very modest deviations in others (MEFP Tables 1–2).

- *All end-March PCs and the continuous PC were met*. The ceiling on the primary balance of the national government was observed by a wide margin. The PCs on the contracting and guaranteeing of external debt, granting of new domestic guarantees by the central government, and accumulating of new external payment arrears were all observed.

- *Very modest deviations were observed in all end-March ITs*. The tax revenue target was missed by just KSh6.5 billion (0.06 percent of GDP) as tax mobilization was somewhat affected by the third COVID-19 wave despite full implementation of agreed measures. The ceiling on the stock of Exchequer requests outstanding over 90 days was exceeded by a negligible KSh4.2 billion (0.04 percent of GDP) on temporary cash management challenges. The floor on priority social spending was missed by just KSh3 billion (0.03 percent of GDP) on delays in releasing Exchequer resources.

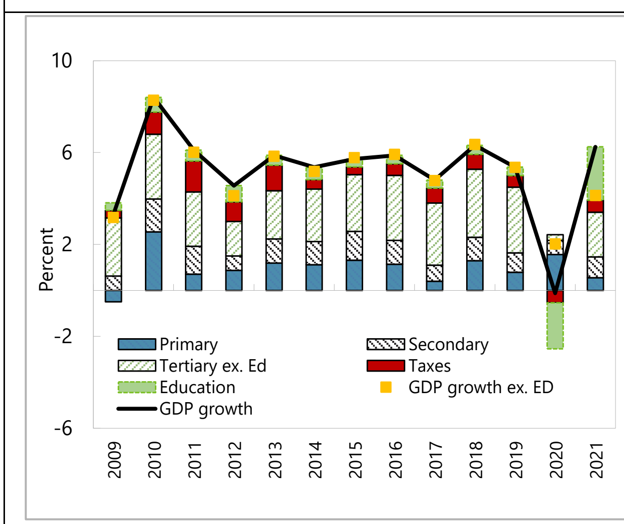
- *Two out of five SBs through end-May were met*. The authorities completed a stocktaking of existing projects in education, health, and infrastructure. They also initiated regular quarterly reporting on pending bills covering Ministries, Departments and Agencies (MDAs), Counties, Semi-Autonomous Government Agencies (SAGAs) and State Corporations (SCs). However, two SBs were not met, but have since been implemented, while a third is expected to be completed in the coming weeks. Specifically, the audits of COVID-19-related spending submitted to Parliament at end-May were published on June 10 (*end-May SB*) due to procedural delays. Submission to Parliament of a FY2021/22 budget consistent with the programmed deficit target was completed with a delay due to unexpected IT challenges in incorporating offsets when finalizing the submission. Finally, delays in contracting an international aviation expert to prepare a full financial assessment of Kenya Airways prevented timely observance of the benchmark on SOEs, although all other elements of related work have been completed.

- *Inflation remained within the MPCC band*.

OUTLOOK AND RISKS

11. Despite the prospects for a rebound in 2021, the outlook is subject to high uncertainty. The pandemic's persistence is likely to slow the economic recovery somewhat compared to earlier expectations. Growth in 2021 is now estimated at 6.3 percent, supported by strong base effects even as further COVID-19 waves may necessitate some reimposition of containment measures. The inflation rate is expected to remain within the target range in the near term, supported by lower food prices and muted demand pressures.

Contribution to GDP Growth



Sources: Kenyan authorities and IMF staff calculations.

12. Kenya's medium-term outlook remains positive. Growth should stabilize around 6 percent over the medium term. Headline inflation is projected to remain close to the mid-point of the central bank's target range thanks to low and stable core inflation. Kenya's external position is expected to remain comfortable, benefiting from improved prospects for exports of goods and services. While poverty reduction gains of recent years have in part been reversed since the onset of COVID-19—particularly in urban areas—planned fiscal consolidation and structural reforms would protect fiscal space for the authorities' development agenda and support private credit and investment.

13. Risks to the outlook remain on the downside (Annex I). Delays in the COVID-19 vaccination program and/or new virus waves could undermine Kenya's nascent economic recovery and increase pressures on fiscal accounts. Main domestic risks continue to be lower agricultural output, including from weather shocks; an uptick of political tensions and violence around the electoral period; delays to the reform agenda resulting from a protracted legal dispute over the planned constitutional amendments; deterioration in Kenya's security situation; and materialization of contingent liabilities from SOEs. Upside risks include a faster-than-projected rebound in economic activity and fiscal revenue if the COVID-19 vaccination program is successfully bolstered.

Box 1. COVID-19 Vaccine Deployment in Kenya

Kenya began vaccinating against COVID-19 in early March 2021. Kenya's vaccine program relies mainly on the COVAX Initiative, which over time is expected to provide vaccines sufficient to cover 20 percent of the population. The first batch (1.02 million doses) of AstraZeneca/Oxford vaccines was received on March 5. More than 930,000 people (about 1.8 percent of the population) had received the first dose of the vaccine as of mid-May 2021. Beyond that, Kenya plans to procure vaccines for another 40 percent of the population.

The vaccination program has been bolstered significantly, with the national target being raised to 60 percent the population by mid-2023 (originally 30 percent). Supply constraints are the main challenge at present. In mid-May 2021, administration of vaccines was restricted as availability of AstraZeneca/Oxford vaccines became limited. Kenya has subsequently been able to secure some 72,000 doses from countries in the region with unused supply.

The authorities plan to broaden the list of vaccines in the national program. Besides the COVAX facility, the government is discussing with the African Union and Johnson & Johnson to procure the necessary doses to inoculate the remaining 40 percent of the population. Given vaccines provided for free by COVAX and potential additional vaccine-related financing of $130 million via a World Bank loan, costs of vaccine deployment would largely be covered through FY20/21 and into early FY21/22.

PROGRAM POLICIES

Amid heightened COVID-19 uncertainty, discussions focused on: supporting Kenya's pandemic response while reducing debt vulnerabilities via a multi-year fiscal consolidation centered on stronger revenues and careful spending prioritization; advancing the broader structural reform and governance agenda by addressing SOE weaknesses and continuing to strengthen the anti-corruption framework; and strengthening the monetary policy framework and supporting financial stability.

A. Supporting the COVID-19 Response While Reducing Medium-Term Debt Vulnerabilities

14. The pandemic is expected to affect fiscal performance in FY20/21. Tax collection will benefit from revenue-enhancing measures in effect from January 1, 2021 (MEFP, ¶24). However, staff now expects the pickup in revenue to be more gradual than previously anticipated—including due to the Court's suspension of CMT payments in March-June (¶6). Thus, while tax policy measures have been undertaken as per the program, tax collection is expected to fall below the end-June target by KSh13 billion, prompting the authorities' request for modification of conditionality (¶40). Normalization of financing conditions in Q4 will support execution of programmed spending commitments, reversing budget under-execution. To achieve the programmed fiscal deficit, the authorities are taking steps to tighten expenditure controls—building on measures introduced with the FY20/21 supplemental budget—and improving prioritization of capital spending, particularly for domestically-financed projects (¶32, and MEFP, ¶24, 33–35). Accordingly, staff expects the primary balance to remain within program targets in FY20/21 (Table 2a). Domestic financing requirements reflect lower-than-previously-anticipated DSSI relief.[2]

15. The authorities submitted to Parliament a FY21/22 budget consistent with program objectives on May 28 (*end-April SB*). The revised proposal would narrow the overall fiscal deficit by about 1.1 percentage points of GDP compared to FY20/21, excluding spending for COVID-19 vaccines (Text Table, Table 2b).

FY21/22 Proposed Budget[1]

	in Ksh billion	in percent of GDP
Revenues and grants	**2,117.7**	**17.1**
Tax revenue	1,667.4	13.5
Nontax revenue	388.3	3.1
Grants	62.0	0.5
Expenditure and net lending[2]	**3,047.3**	**24.6**
Recurrent expenditure	2,436.7	19.7
Development and net lending	610.6	4.9
Overall balance including measures (incl. grants)	**-929.6**	**-7.5**
Financing	**929.6**	**7.5**
Net foreign financing	271.2	2.2
Net domestic financing	658.4	5.3
Memorandum items:		
Nominal GDP	12,389.0	
Primary balance incl. grants	-369.4	-3.0

1/ The fiscal figures reflect the revised proposal presented on May 28, 2021
Source: National Treasury.

- On the revenue side, collection would be supported by the full-year impact of the earlier tax cut reversal, digital tax, resumption or replacement of the CMT, and several base-broadening measures (excises and VAT) for an overall impact of 0.7 percent of GDP, of which 0.07 percent of GDP are new measures.
- On the spending side, the authorities plan to use part of the fiscal space from unwinding earlier emergency spending to extend targeted support to sectors affected by the pandemic (0.2 percent of GDP), enhancing budget controls while restraining non-priority domestic investment (¶32).

[2] DSSI relief through June 2021 was originally projected at about KSh71 billion. As the set of DSSI eligible loans was confirmed with creditors, estimates were revised to KSh38 billion.

- The draft budget envisages minimal costs for COVID-19 vaccination, as initial plans relied on the COVAX initiative and grants from The Global Alliance for Vaccines and Immunizations (GAVI). However, given challenges in securing contracted vaccines and the desire to expand and accelerate the vaccination program, the authorities are actively engaging donors to mobilize additional resources for about KSh14 billion (0.1 percent of GDP) to bolster vaccination plans.
- The draft budget also reflects additional foreign financing due to the extension of DSSI relief through end-December 2021, as agreed by the G20 in April (361 million or 0.3 percent of GDP).

16. The fiscal targets for FY21/22 remain appropriate in the current environment. While the pandemic is a major source of uncertainty, the authorities are implementing the policies agreed under their program. They see the CMT as an important element of their tax policy strategy and agreed to bring forward tax measures to safeguard collection in FY21/22 if the CMT is further suspended or its yield substantially reduced. The objective of lowering the primary balance by 1.6 percentage points of GDP strikes the right balance between the need to reduce debt vulnerabilities and continue supporting the economy.

17. However, some additional fiscal costs from vaccines and SOEs are likely in FY21/22 (Table 2a and 2b). Program design anticipates this eventuality. To support stepping up Kenya's COVID-19 vaccination strategy, the program provides for an adjustor on the full cost of COVID-19 vaccine interventions and related imports, relaxing the primary deficit target by the amount of such spending (TMU¶6).[3] Similarly, half of the projected amount that may be necessary to stabilize troubled SOEs (KSh65 billion or 0.5 percent of GDP) would be reflected in a modestly higher primary deficit (¶25).

18. Beyond FY21/22, the authorities' fiscal strategy aims to reduce debt vulnerabilities while protecting high-priority service delivery and investment programs. A key objective of the strategy is to bring the primary deficit below its debt-stabilizing level in 2023 via revenue-mobilizing and expenditure-curbing measures. On the revenue side, the authorities plan to introduce additional tax measures for 0.8–0.9 percent of GDP in FY22/23 and FY23/24, drawing from past IMF advice, also in the area of revenue administration (¶31).[4] On the expenditure side, the authorities intend to restrain recurrent expenditures—particularly through gradual reduction in the wage bill and transfers to public sector entities—improving the efficiency of government spending consistent with the findings of the 2020 Public Expenditure Review from the World Bank (¶32).

19. Public debt is sustainable but remains at high risk of distress (DSA, EBS/21/29). Under the baseline, public debt is expected to reach 70.6 percent of GDP in FY20/21 (63.3 percent of GDP in PV terms) and to modestly increase until FY22/23. As the effects of the pandemic wane and the consolidation efforts continue, the primary deficit is expected to be brought below its debt-

[3] The authorities are currently discussing terms of a World Bank loan for about $130 million (about KSh14.3 billion or 0.1 percent of GDP) to accelerate COVID-19 vaccine interventions.

[4] See discussion in EBS/21/29.

stabilizing level by end-2023, putting the debt ratio on a downward path thereafter (Table 2a and 2b; DSA, EBS/21/29). The outlook for Kenya's debt carrying capacity is also favorable.

20. The authorities are strongly committed to reducing debt vulnerabilities. To strengthen their legal framework on indebtedness, they have proposed an amendment to the PFM Regulations to replace the current nominal legal ceiling on debt issuance (at KSh9 trillion, and close to being reached) with a medium-term debt-to-GDP anchor of 55 percent of GDP in present value (PV) terms (Box 2). Staff welcomes the new anchor and introduction of an accountability requirement—whereby the government explains to Parliament how planned policies would bring the debt ratio from current to targeted levels. The IMF-supported program will provide strong reinforcement for the authorities' plans to durably reduce debt in the coming few years while debt exceeds the anchor level.

Box 2. Kenya's Debt Ceiling

Kenya's existing legal debt ceiling is set in nominal terms, failing to provide adequate guidance to policymakers and to account for a growing economy's ability to support healthy levels of debt. The authorities intend to replace the existing ceiling with a forward-looking framework that guides policy choices to credibly and predictably reduce debt from current heights to internationally-accepted safer levels over the medium term. The proposed framework is centered on two pillars: i) a medium-term debt anchor of 55 percent of GDP in present value (PV) terms; and ii) an accountability requirement that mandates transparent communication to Parliament and the public on plans and progress towards achieving the debt anchor within a specific timeframe. The proposed framework is superior to the existing debt ceiling as it:

Establishes a transparent link between the government's medium-term public debt management strategy and a key indicator of debt sustainability: the debt-to-GDP ratio in PV terms. In countries like Kenya, where a significant share of borrowing is on concessional terms, measuring debt in PV terms gives a more accurate picture of the burden represented by a given level of debt.

Identifies a desirable level of the anchor that, based on cross-country experience, is prudent and provides appropriate margins for a country with medium debt carrying capacity, Kenya's current level (DSA, EBS/21/29).

Strengthens credibility of Kenya's strategy to reduce debt vulnerabilities by enhancing transparency and accountability around the envisaged path to reach the medium-term anchor. Any deviations from that path would need to be clearly justified. This accountability is particularly important at the current juncture as the PV of total public debt-to-GDP ratio is projected to continue rising until 2023 before beginning to decline towards the medium-term anchor (DSA, EBS/21/29).

Provides Kenya with flexibility in the event of adverse shocks without undermining the credibility and predictability of the authorities' debt strategy.

The objectives of the new forward-looking framework and debt anchor are consistent with Kenya's reform program supported by the IMF EFF/ECF arrangements.

21. The debt limits established at program approval remain appropriate given Kenya's external debt vulnerabilities. The authorities' financing strategy prioritizes concessional financing and envisages commercial borrowing for project financing and debt management operations (¶20 in EBS/21/29). Eurobond issuance is planned, with debt management operations undertaken if market conditions are favorable. Looking ahead, technical work will begin to allow for effective monitoring of Kenya's debt limits in PV rather than in nominal terms, starting with the third EFF/ECF reviews.[5]

B. Structural Reforms

22. The authorities' structural reform agenda is focused on immediate policy needs at this early stage of the program. Near-term priorities are addressing challenges in SOEs and moving forward the governance and fiscal structural agendas. Subsequently, the focus will move to supporting employment creation and social inclusion via a vibrant and competitive business environment.

Addressing SOEs' Financial Challenges

23. The authorities are taking important steps to address financial pressures in SOEs. Leveraging the already-completed financial evaluations of the 9 SOEs with largest fiscal risks to the budget, the authorities provided targeted financial support equivalent to KSh36 billion (0.3 percent of GDP) in the FY20/21 supplemental budget (MEFP¶38). At end-May, an in-depth evaluation of 18 SOEs was completed by analyzing their cash flow balances over 2021–24 and potential cost-savings from viable restructuring options.[6] However, delays in hiring an international aviation consultant to undertake an evaluation of Kenya Airways resulted in non-observance of the end-May SB, which is expected to be fully implemented in the coming weeks with completion of that evaluation. National Treasury has also finalized a strategy to enhance its financial oversight of SOEs (*end-May SB*; Table 2, MEFP).

24. Preparatory work to strengthen institutional oversight and governance arrangements in the SOE sector is also underway, supported by Fund TA. Developing an integrated monitoring and reporting system would enable a framework for performance management that effectively sets, monitors, and evaluates the performance of commercial state corporations. Key inputs will be a blueprint identifying needed legal reforms; implementation of actions for efficient oversight and management of SOEs (MEFP¶39); and initiating a review of institutional structures across MDAs, SAGAs, and SCs—which will be piloted in at least one sector by December 2021 (MEFP¶40).

25. Additional fiscal support to SOEs will likely be needed in early FY21/22, despite ongoing restructuring measures (MEFP¶38-40). The in-depth financial evaluation of 19 SOEs will be major inputs to the authorities' consideration of least cost restructuring strategies which—after accounting for additional cost-savings efforts by the companies—will determine the exact amount of extraordinary budget support needed in FY21/22. Pending completion of these strategies, staff anticipates additional SOEs support of KSh65 billion (0.5 percent of GDP) overall may be needed in FY21/22 (not included in the draft budget), on account of overdue obligations, debt servicing costs

[5] The modified IMF debt limits policy, approved by the IMF Executive Board in October 2020, will become effective on June 30, 2021. Under the modified policy, Kenya—a country at high risk of debt distress with significant access to international financial markets—will utilize limits on external borrowing set in present value (PV) terms.

[6] Financial evaluations for the largest SOEs and the SOE strategy have been supported by Fund technical assistance (TA).

and losses related to the economic fallout from the pandemic, and amounts due from the government. (This estimate will be revisited during the second reviews.)

Governance

26. The authorities are advancing their agenda to ensure transparency and accountability. Audits of all COVID-19-related expenditures in FY19/20 have been completed, including audits of all spending by MDAs, and forensic audits of COVID-19 funds utilized by National Government Entities, Kenya Medical Supplies Authority (KEMSA), and Counties. The production of multiple audits has provided a high degree of transparency, notwithstanding the short delay in publication of the final audits. Given the procedural and transactional issues revealed, especially in the KEMSA audit,[7] follow-up of audit findings is critical including further investigation and prosecution of criminal violations and actions to address the identified shortcomings (e.g., legal or systems/processes). While KEMSA published reports with information on awarded contracts and beneficial ownership of the companies, the Public Procurement Information Portal has yet to publish beneficial ownership information.[8] This key planned step should be implemented as a matter of priority (*end-June SB*).

27. Anti-corruption efforts should also be enhanced to effectively implement the comprehensive laws Kenya has in place. While Kenya has a broad anti-corruption legal framework,[9] the authorities need to focus on the operationalization and effective implementation of these laws to detect and deter corruption. To assist with the effective prosecution and sanction of corruption crimes, the Multi Agency Team on Corruption (MAT) is responsible for the coordination of enforcement agencies to facilitate the processing of corruption investigations and prosecutions.

28. However, increased focus on strengthening the anti-corruption preventative framework is necessary:

- Public consultations on the regulations to enable implementation of the Access to Information legislation (MEFP¶55–56 in EBS/21/29) should be followed by tabling to Parliament for swift approval.
- The authorities also plan to finalize the review of the legal framework of asset declarations and conflict of interest rules for senior public officials by September 2021 and should move quickly to effectively adopt and operationalize the system.

29. Effective implementation of the AML/CFT framework is a key pillar of anti-corruption efforts. To this end, the Financial Reporting Centre (Kenya Financial Intelligence Unit) continues to prioritize analysis and dissemination of financial intelligence relating to corruption to law

[7] The KEMSA audit found numerous violations of the Procurement and the Public Finance Management Acts and inefficiencies in the procurement process. This prompted a Parliamentary investigation and subsequently a recommendation by the Ethics and Anti-Corruption Commission that the Director of Public Prosecutions open charges against individuals involved.

[8] PPIP | Public Procurement Information Portal (tenders.go.ke).

[9] For instance, the Access to Information Law (2016), the Leadership and Integrity Act (2012), Ethics and Anti-Corruption Commission Act (2012), Public Officer and Ethics Act (2003), Anti-Corruption and Economic Crimes Act (2003) and Law on Bribery (2016).

enforcement agencies. AML/CFT risk-based supervision should be further strengthened using supervisory tools like onsite and offsite supervision to ensure banks adequately implement enhanced due diligence measures on politically exposed persons and other higher risk customers vulnerable to corruption. Beneficial ownership transparency is being enhanced through the operationalization of the Beneficial Ownership Information E-Register. Companies have been given a six-month grace period until July 2021 to submit accurate and updated beneficial ownership information to the Registrar of Companies, failing which companies can be fined upon conviction. Making publicly available the National Risk Assessment (NRA) findings and Action Plan—once approved by Cabinet—and effective implementation of the Action Plan will further strengthen Kenya's AML/CFT regime, bolstering the fight against corruption.[10]

Fiscal Structural Agenda

30. The authorities' fiscal structural agenda fosters transparency and supports achievement of fiscal targets. In March 2021, the National Treasury initiated regular quarterly reporting on pending bills (*SB*), covering the broad public sector. This should raise awareness on the high level of pending bills—largely a legacy issue concentrated in key SAGAs, foster a culture of accountability, and eventually lead to timely payments.[11]

31. Modernizing revenue administration is key to strengthen revenue mobilization and lower the costs of compliance (MEFP¶31). The authorities are improving tax and customs controls with support of Fund TA. Kenya Revenue Authority (KRA) is strengthening audits; developing and implementing risk-based frameworks; and enhancing use of import valuation tools. Moreover, KRA is bolstering efforts to verify exemptions and reduce abuse—particularly related to VAT.

32. The authorities are also improving PFM systems despite challenges in some areas. Having completed a stock-taking of existing projects in the areas of education, health, and infrastructure (*end-March SB*), the authorities are taking steps to rationalize projects that have remained idle. They are also revising the structure of the PPP unit consistent with the PPP Act (MEFP¶37) and reinforcing debt management practices. However, operational challenges have emerged in designing a common payroll system across different public sector entities (*end-June SB*) due to the highly heterogenous institutional setup and IT capabilities of SAGAs. The authorities, therefore, propose to adopt a two-stage approach whereby a common payroll system (linked to IFMIS) is first developed for MDAs and Counties, and subsequently extended to SAGAs that wholly depend on Exchequer resources (MEFP¶33). Planned roll-out of e-procurement (supported by the World Bank) is also facing challenges due to delays in hiring a system developer—now expected by September rather than April 2021 (MEFP¶32).

[10] Submission to Cabinet is anticipated in June 2021.

[11] Total outstanding pending bills at end-March 2021 of KSh308 billion comprised KSh263 billion (85.4 percent) for SAGAs and KSh45 billion (14.6 percent) for MDAs and counties.

C. Strengthening the Monetary Policy Framework and Safeguarding Financial Stability

33. The CBK's accommodative monetary policy stance remains appropriate. Since the onset of the COVID-19 crisis, CBK's measures to buffer shocks and ease market liquidity pressures, including interest rate cuts in March and April 2020, have been consistent with the medium-term inflation target of 5 percent and ±2.5 percentage point (ppt) band, while supporting economic recovery and ensuring continued good functioning of domestic capital markets. The Shilling has continued to serve as a shock absorber with foreign exchange interventions used only to minimize excessive volatility.

34. The financial sector remains stable and generally profitable. Regulatory ratios remain strong (¶9), and banks' return on assets (ROA) and return on equity (ROE) increased to 2.6 and 22 percent at end-March 2021 from 1.6 percent and 13.8 percent at end-December 2020, respectively. Moreover, to ensure resilience of banks' capital, the CBK reviewed banks' decisions on dividend payments based on the findings of the 2020 capital planning process (ICAAP)—which revealed no systemic risk. Banks are required to consult the CBK for approval of dividend payments. Some smaller banks could face challenges with asset quality. The new credit guarantee scheme should support new credit to MSMEs, albeit on a relatively modest scale.[12]

35. CBK's measures in the financial sector have been effective in cushioning the impact of the pandemic. These have included, among others:

- *Moratorium on loan repayment*—which expired in March 2021—helped alleviate difficulties faced by borrowers (EBS/21/29).[13]
- *Use of mobile money*. The CBK waived the fees on fund transfers from bank accounts to mobile wallets. As a result, mobile money transactions increased markedly.
- *Reforms of the regulatory and supervisory frameworks*. The CBK is on course to pilot the centralized Electronic Data Warehouse (EDW) that enables real-time access to supervisory data for regulators. Bills are being advanced to enable the CBK to regulate and supervise non-bank digital lenders and to enhance the regulatory and supervisory framework for microfinance institutions. To safeguard the interest of customers and maintain the resilience of the banking system, in April 2021 the CBK appointed the Kenya Deposit Insurance Corporation (KDIC) as the liquidator of Chase Bank Ltd and Charterhouse Bank Ltd.

36. The CBK is preparing a white paper to strengthen its monetary policy framework. A recent high-level Monetary Policy Committee retreat focused on macroeconomic modelling and

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[12] The scheme allows a maximum loan guarantee of KSh20 million for creditworthy MSMEs. The scheme has provided guarantees of KSh176 million as of April 2021 based on initial funding of KSh3 billion.

[13] Customers whose loans were performing but were adversely impacted by the pandemic were able to engage their banks through March 2021. A cumulative total of KSh1.7 trillion of loans were restructured, equivalent to 57 percent of gross banking sector loans. Most customers resumed normal payments; only KSh419.9 billion of restructured loans (about 24.5 percent of such loans) remained outstanding at end-March 2021.

forecasting frameworks, enhancing the operations of financial markets, and improving communication.[14] The white paper is expected to be published by end-June 2021 (*SB*).

PROGRAM ISSUES AND RISKS

37. Financing assurances are in place. The program is fully financed, with firm commitments for the next 12 months, and good financing prospects for the remainder of the program (Table 8). The financing plan includes important budget support from the World Bank, and the $750 million Development Policy Operation anticipated in mid-June 2021 is the first of a planned two-part operation. While financing under the DSSI initiative in H1-2021 is less than originally envisioned, the authorities have requested extension through end-2021, providing significant additional near-term financial support. The authorities are following up on DSSI creditor participation under the initiative and engaging the donor community to secure grants or additional concessional lending to cover potential COVID-19 vaccination costs.

38. Kenya's capacity to repay the Fund is adequate. The total amount of outstanding credit to the Fund would reach SDR 1,301.4 million, or 239.7 percent of quota, at end-2021. This would peak at SDR 2,198 million, or 405 percent of quota in 2024 and then steadily decline. Fund credit outstanding would peak at 2.2 percent of GDP, while external debt service would peak at close to 30 percent of exports and about 21 percent of revenue in 2024, compared to 2.4 percent of GDP, 7.3 percent of exports and 9.2 percent of revenue, respectively, for the median PRGT country.

39. The program continues to face significant risks. In addition to continued COVID-19 challenges, program implementation could be hindered by a pickup in political tension related to upcoming general elections. Deterioration in Kenya's security situation or materialization of important SOE contingent liabilities could also weaken program implementation. Challenges of data consistency could delay policy decisions. These risks are mitigated by the program design—which ensures close engagement during the first two quarterly reviews—while providing adequate flexibility to deal with the materialization of COVID-19-related shocks (¶33 in EBS/21/29). Other important mitigating factors are the authorities' commitment to adopting contingency measures to achieve program objectives, close engagement with donors, and a tailored CD strategy supporting structural reform implementation.

40. The authorities request modification of program conditionality as follows:

- To modify the PCs on NIR for end-June 2021 to incorporate the revised DSSI debt relief for April-June 2021, and for the period between end-December 2021 and end-June 2022 to reflect the DSSI extension in H2-2021 and related use of financing.
- To change the end-June 2021 IT on tax collection (¶14; MEFP¶24).

[14] Past IMF TA (MCM, February 2020) had confirmed the importance of these topics.

- To modify the end-June 2021 SB on the issuance of a decision to implement a common payroll system across MDAs, counties, and SAGAs. The authorities propose to adopt a two-stage approach (¶32; MEFP¶33).
- To change the adjustor on the primary balance for program grants in the Technical Memorandum of Understanding (TMU¶6) and make it asymmetric (i.e., the adjustor only applies if program grants fall short of programmed amounts). This change would allow the use of donor support potentially becoming available earlier and/or in higher amounts than under the baseline.

STAFF APPRAISAL

41. Kenya's economy is staging a recovery although somewhat less rapid than previously expected. Economic growth likely turned positive in 2020Q4 and is expected to rebound at a still strong 6.3 percent in 2021. The third wave of COVID-19 infections has subsided following temporarily tightened containment measures, but uncertainty and pandemic-related pressures likely will persist until vaccinations become widely available. Challenges remain in securing a durable and inclusive recovery as the pandemic reversed some of Kenya's previous gains in poverty reduction.

42. Program performance has been broadly satisfactory despite heightened COVID-19 uncertainty. The continuous PC and all end-March PCs and SBs were met. However, small deviations were observed in the three ITs due to temporary factors not related to changes in policies—which remain fully aligned with the program objectives. Further, the end-April and end-May SBs were not met, of which two have been subsequently implemented, and one is expected to be implemented in the next few weeks. Specifically, the FY21/22 budget consistent with program objectives was submitted to Parliament on May 28 (*end-April SB*); the publication of comprehensive audits covering all COVID-related spending in FY2019-20 (*end-May SB*) occurred on June 10. Finally, the in-depth financial assessment of Kenya Airways—an essential input in the SOEs strategy (*end-May SB*)—will be likely implemented in the coming weeks.

43. The authorities have taken strong measures to achieve their fiscal path in a highly uncertain environment for policymaking. The FY21/22 budget maintains support to the economy in key areas, while carrying forward important consolidation efforts (i.e., repeal of COVID-19 tax cuts, removal of tax exemptions, prioritization of non-essential spending). It targets an improvement in the primary balance of 1.6 percentage points of GDP. The authorities are optimistic that the CMT will be reinstated when the legal challenge is heard; they agree that, if this were not the case, they would bring forward contingency tax measures to meet the FY21/22 tax revenue targets. Looking ahead, the authorities' commitments to strengthening spending efficiency and undertaking further tax policy and revenue administration measures in later years are essential to reduce debt vulnerabilities and make room for needed social and development spending.

44. The authorities should maintain momentum in developing and implementing their strategy to address challenges from SOEs. Very substantial progress has been made in assessing the financial situation of SOEs posing the largest fiscal risks. Least-cost approaches to address financial challenges of individual SOEs will be critical, building on ongoing cost-saving reforms in several firms including Kenya Airways and KPLC. Going forward, the authorities' strategy to make SOE governance arrangements more efficient and improve the National Treasury's capacity to undertake regular assessments of SOEs' financial performance should deliver more effective oversight and management of SOEs, while reducing their liquidity gaps and budgetary financing needs.

45. Progress has been made in improving fiscal governance and reducing the possibilities for corruption. On anti-corruption, the publication of audits covering all COVID-19-related expenditures in FY19/20 and the forthcoming disclosure of beneficial ownership information of companies that are awarded procurement contracts are strong signals of commitment. Building on the Auditor General's work identifying problems in the procurement of healthcare equipment, it will be critical that appropriate bodies follow up on these irregularities to bolster confidence.

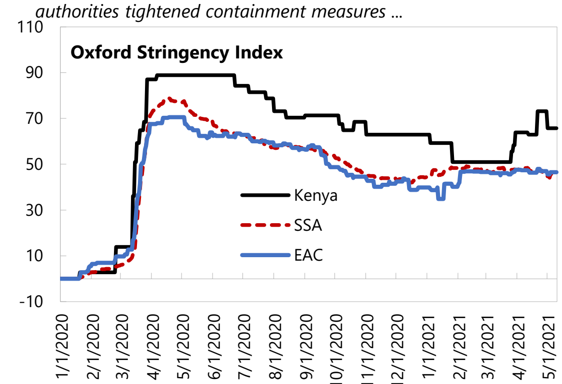
46. Monetary policy remains appropriately accommodative. The CBK should maintain this stance as long as inflation and inflation expectations remain well-anchored within the target band. The CBK appropriately allowed the Shilling to act as shock absorber during the pandemic and should continue to do so, while using FX interventions only to minimize excessive volatility. The forthcoming white paper on plans to enhance the monetary policy framework will enhance the effectiveness of CBK operations and monetary policy implementation more broadly.

47. The authorities should continue to closely monitor potential risks in the banking sector. The CBK's interventions have helped to avoid acute stresses from the COVID-19 shock on the banking sector—which remains well capitalized and liquid—and on borrowers. However, the shock has exacerbated preexisting asset quality issues, prompting banks to reinforce risk management and credit administration, and accelerate write-offs. Close supervision of credit risk and provisioning adequacy should be maintained. The new credit guarantee scheme for MSMEs can play a role in supporting new credit but should avoid assuming undue exposure to banks' troubled borrowers or creating large contingent liabilities.

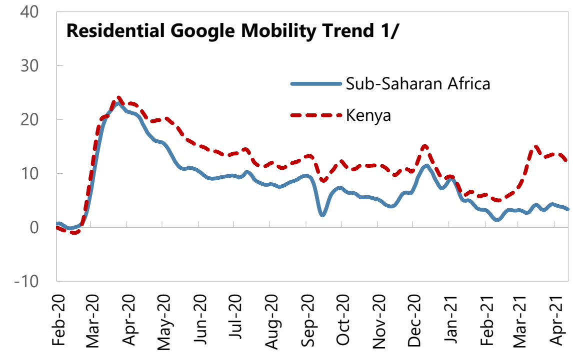
48. Staff supports the authorities' requests for completion of the first reviews and modification of PCs, IT, and SBs under the ECF/EFF arrangements, given the satisfactory performance under the arrangements and the commitment toward meeting program's objectives.

Figure 1. Kenya: Real Sector Developments

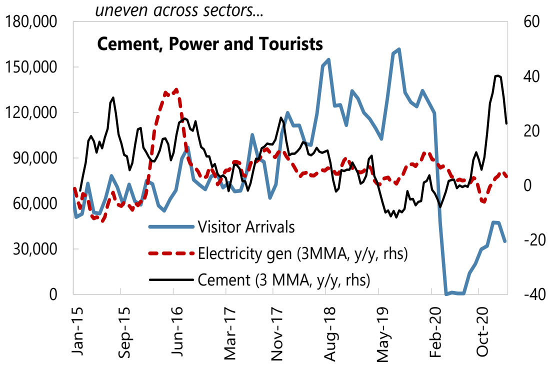
Kenya was hit by third wave of COVID-19 in early March, the authorities tightened containment measures ...



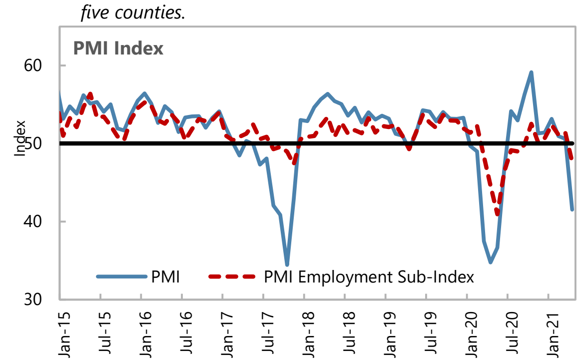
... the measures were partially lifted early May.



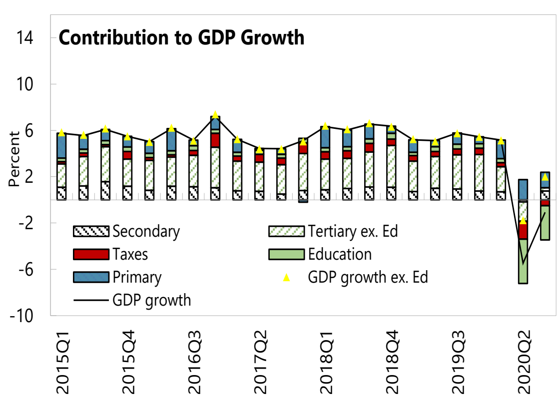
The recovery at the end of the year remained strong, but uneven across sectors...



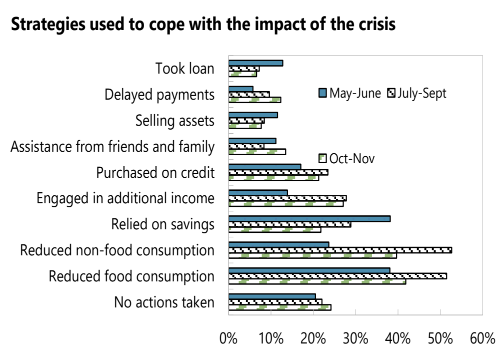
... and the PMI registered the impact of the lockdown in five counties.



While the economic recovery is underway...



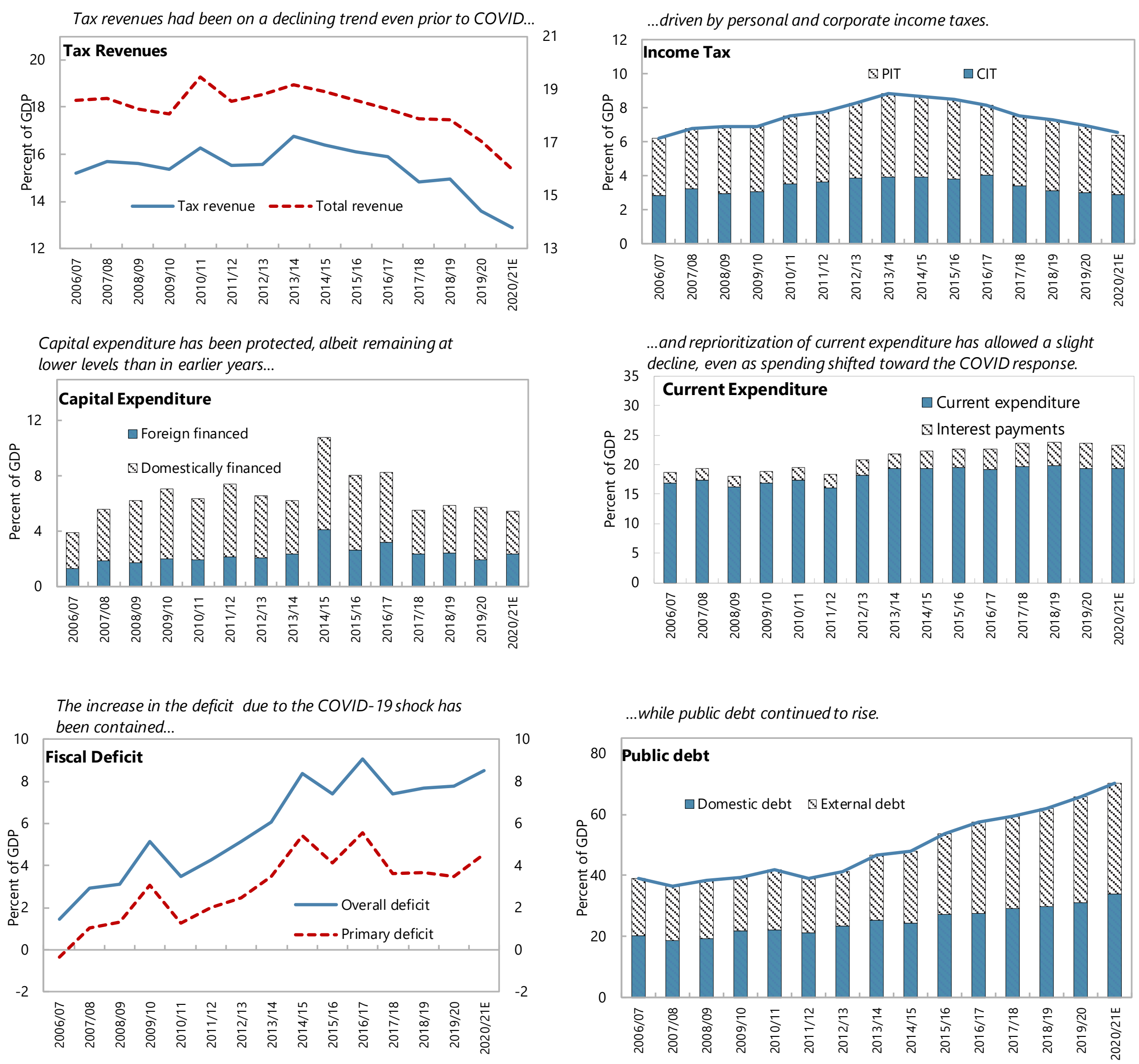
...the socio-economic impacts of the crisis are expected to be persistent.



Sources: Kenyan authorities, Oxford COVID-19 Government Response Tracker, Markit Economics, World Bank and IMF staffs' calculations.

1/ The series captures mobility trends for places of residence. 7-day moving averages.

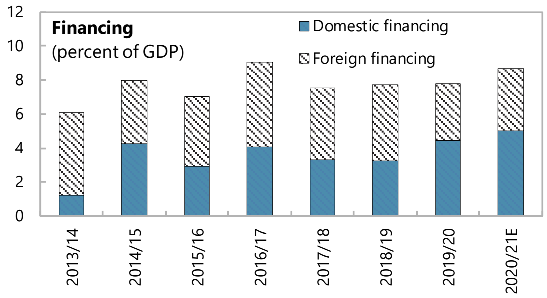
Figure 2. Kenya: Fiscal Sector Developments



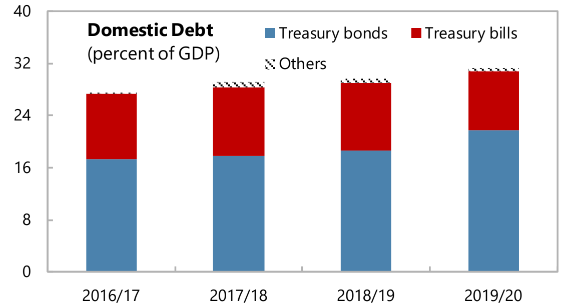
Sources: Kenyan authorities and IMF staff calculations and projections.

Figure 3. Kenya: Financing

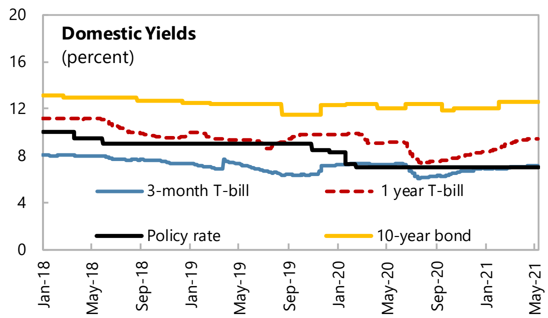
As the COVID-19 shock hampered access to international markets, reliance on domestic financing has increased in FY20/21 …



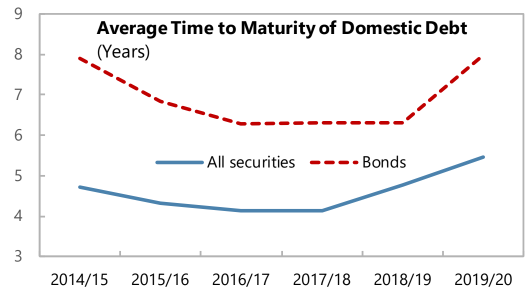
… increasing the stock of domestic debt.



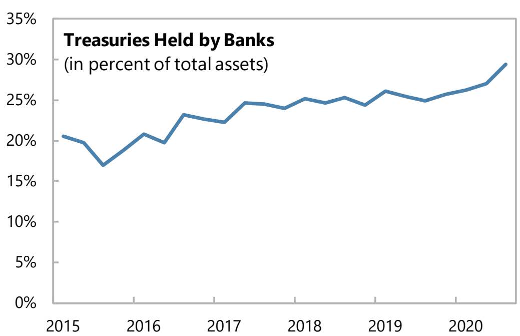
Nevertheless, financing conditions in the domestic market remained favorable towards longer-term issuance….



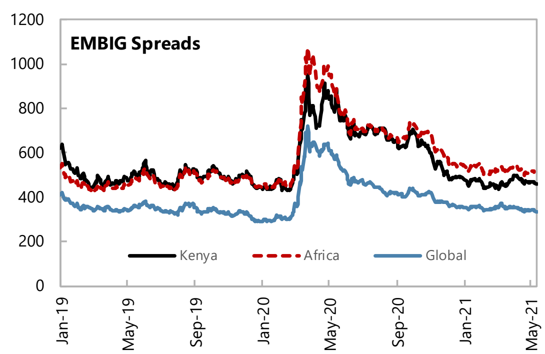
… allowing the government to further improve the maturity profile of its domestic debt.



Facing heightened uncertainty, commercial banks increased their exposure to the sovereign.



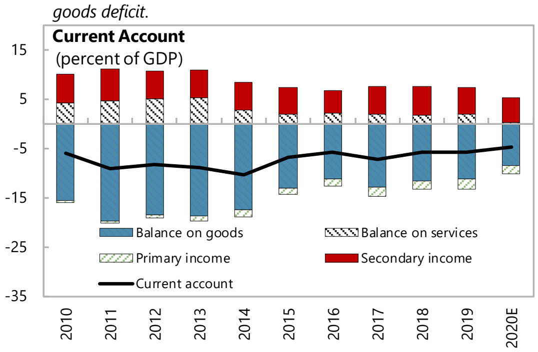
External financing conditions for countries in the region have broadly recovered after deteriorating with the initial COVID-19 shock.



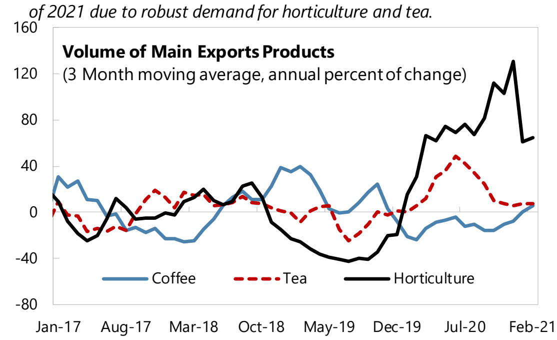
Sources: Kenyan authorities, Bloomberg and IMF staff calculations and projections.

Figure 4. Kenya: External Sector Developments

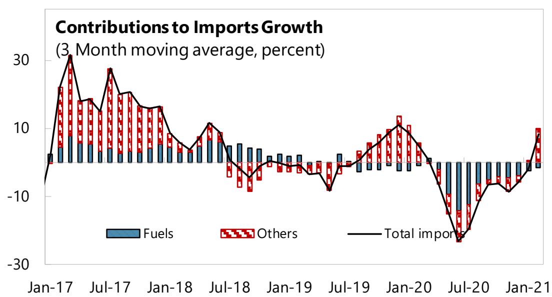
The current account deficit narrowed in 2020 with a declining goods deficit.



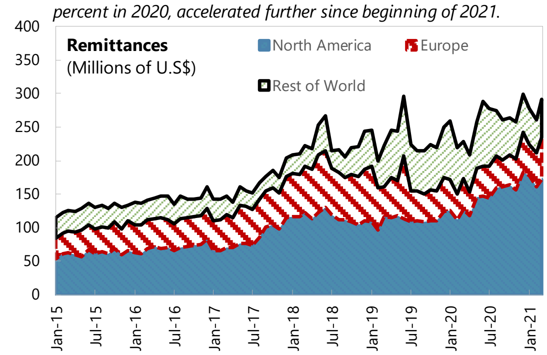
Despite initial disruption in global supply chains, exports were resilient last year and continued to remain strong in the beginning of 2021 due to robust demand for horticulture and tea.



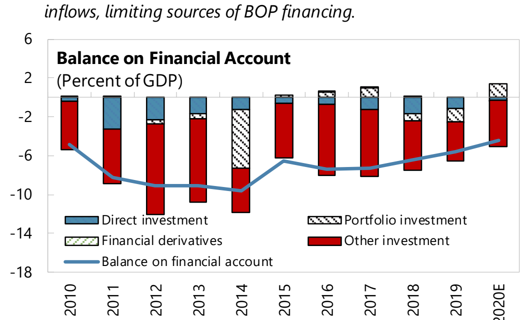
Imports, which were held back by low commodity prices and weak domestic demand in 2020, are showing signs of recovery.



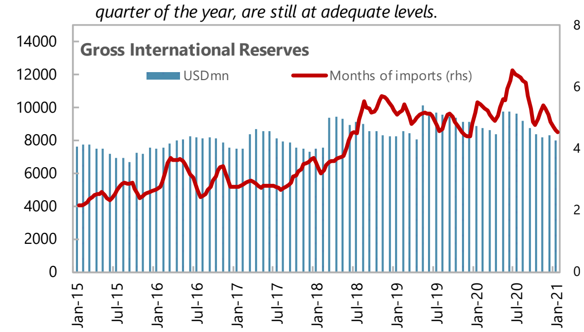
The growth rate of remittances, which remained robust at 10 percent in 2020, accelerated further since beginning of 2021.



The COVID shock led to a reduction in FDI and net portfolio inflows, limiting sources of BOP financing.

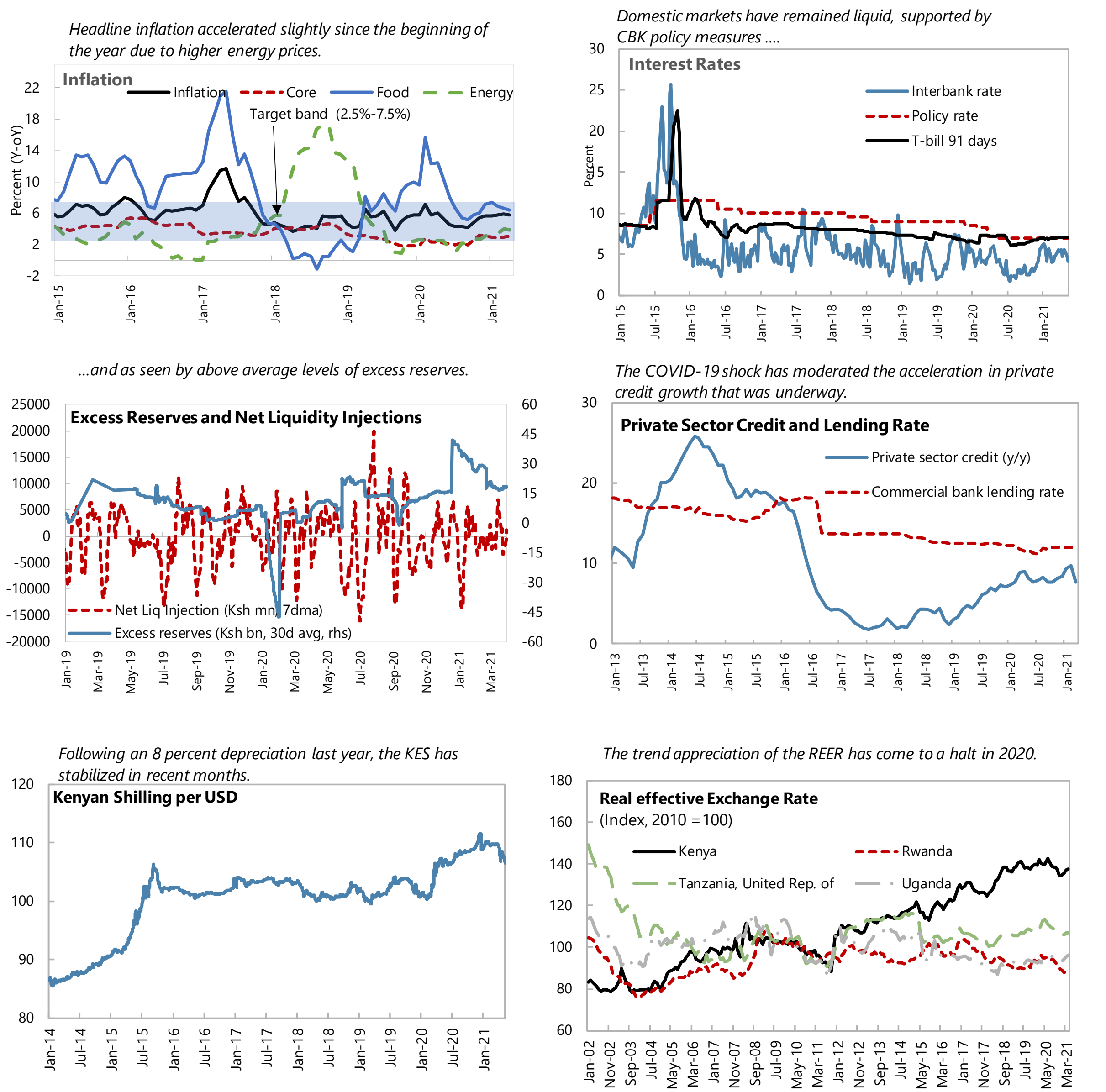


FX reserves, which continues to decline further in the first quarter of the year, are still at adequate levels.



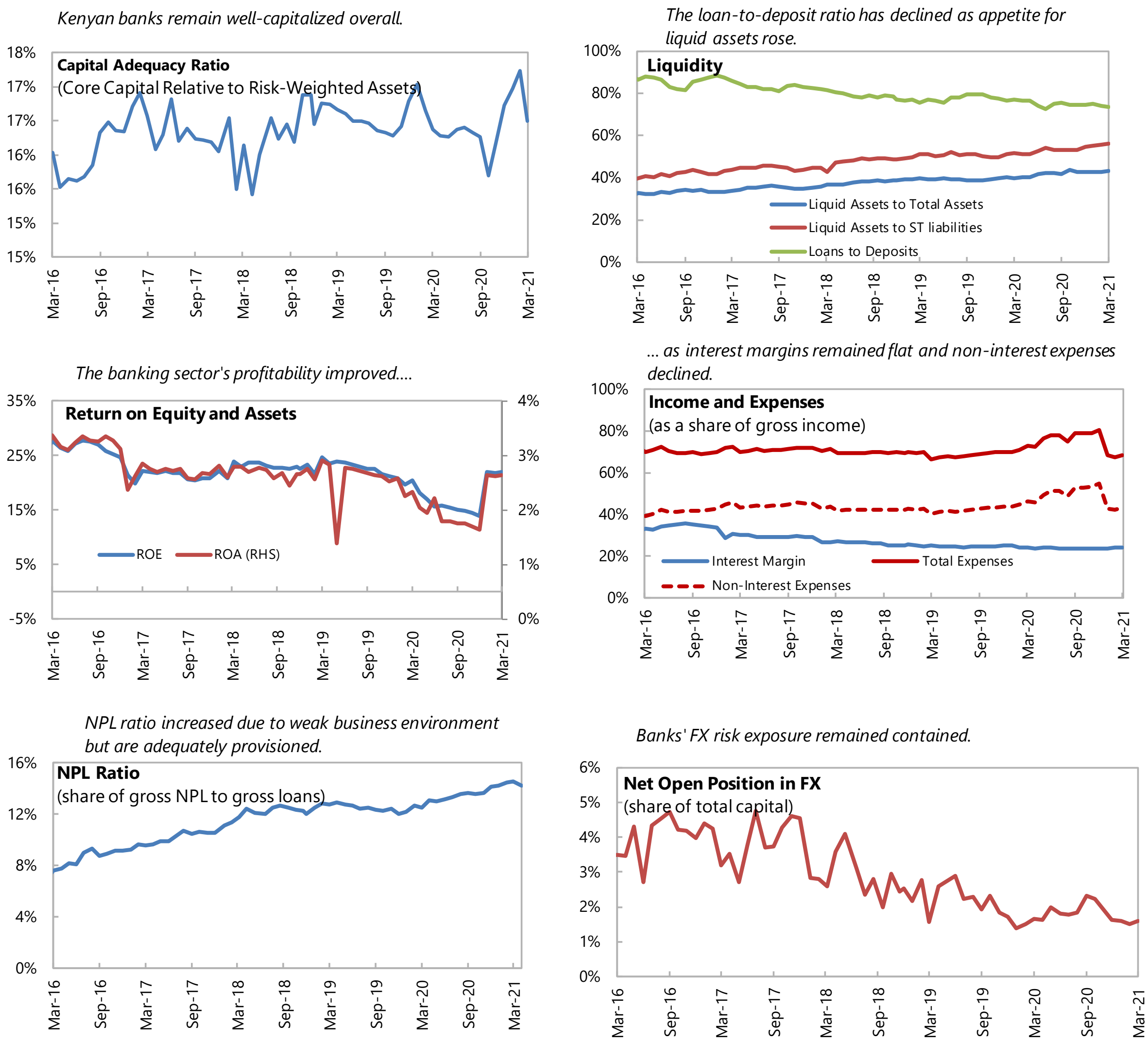
Sources: Kenyan authorities and IMF staff estimates.

Figure 5. Kenya: Monetary and Exchange Rate Developments



Sources: Kenyan authorities and IMF staff calculations.

Figure 6. Kenya: Financial Soundness Indicators



Sources: CBK and IMF staff calculations.

Table 1a. Kenya: Selected Economic Indicators, 2019/20–2024/25

(Fiscal year basis)[1]

	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25	
:	Est.	Prg.	Proj.	Prg.	Proj.	Prg.	Proj.	Prg.	Proj.	Prg.	Proj.
		EBS/21/29		EBS/21/29		EBS/21/29		EBS/21/29		EBS/21/29	
	(Annual percentage change, unless otherwise indicated)										
Output, prices, and exchange rate											
Real GDP	2.6	3.7	3.1	6.6	6.3	5.9	6.3	6.1	6.1	6.1	6.1
GDP deflator	5.8	5.6	5.9	4.3	4.5	4.8	4.7	5.0	5.0	5.1	5.1
CPI (period average)	5.0	5.0	5.4	5.0	5.2	5.0	5.0	5.0	5.0	5.0	5.0
CPI (end of period)	5.0	5.0	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core inflation (period average) [2]	2.4	2.2	2.4	3.7	3.9	5.2	5.2	5.0	5.0	5.0	5.0
Exports volume	3.1	10.2	10.2	11.8	11.8	10.0	10.1	9.7	9.7	9.2	9.2
Imports volume	3.3	5.6	5.0	12.4	12.1	12.8	13.1	11.3	11.3	9.8	9.8
Exchange rate (Kenyan shilling/US$)	103.6		.		.		.		.		.
Real effective exchange rate (depreciation, -)	1.2		.		.		.		.		.
Money and credit											
Broad money (M3)	8.4		.		.		.		.		.
Reserve money	-2.9		.		.		.		.		.
Credit to non-government sector	7.7		.		.		.		.		.
Policy rate	7.0		.		.		.		.		.
M3/GDP (percent)	38.0		.		.		.		.		.
NPLs (percent of total gross loans)	12.3		.		.		.		.		.
	(Percent of GDP, unless otherwise indicated)										
Central government budget											
Total revenue, grants and unidentified tax policy measures	17.2	17.0	17.1	16.8	17.0	17.6	17.7	18.6	18.6	18.4	18.5
Tax revenues	13.6	12.9	12.8	13.5	13.5	14.7	14.7	15.6	15.6	15.6	15.6
Non-tax revenues	3.4	3.7	3.9	3.0	3.2	2.6	2.6	2.7	2.7	2.5	2.5
Grants	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Expenditure	25.0	25.7	25.7	24.3	24.6	23.5	23.5	22.9	22.9	22.1	22.2
Current	19.3	20.0	19.9	19.3	19.6	18.4	18.5	17.9	17.9	17.2	17.3
Capital	5.7	5.7	5.9	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.9
Primary balance	-3.5	-4.6	-4.6	-3.0	-3.0	-1.1	-1.1	0.2	0.2	0.5	0.5
Excluding SGR related spending	-3.0	-4.4	-4.5	-3.0	-3.0	-1.1	-1.1	0.2	0.2	0.5	0.5
Cash Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-7.8	-8.7	-8.6	-7.5	-7.5	-5.8	-5.8	-4.3	-4.4	-3.7	-3.7
Excluding SGR-related spending	-7.3	-8.6	-8.5	-7.5	-7.5	-5.8	-5.8	-4.3	-4.4	-3.7	-3.7
Excluding grants	-8.0	-9.1	-9.0	-7.9	-7.9	-6.2	-6.2	-4.7	-4.7	-4.0	-4.0
Net domestic borrowing	4.5	5.0	4.9	5.2	5.2	4.4	4.4	2.8	2.8	2.4	2.4
Public debt											
Public gross nominal debt	65.8	70.4	70.6	72.6	73.0	72.9	73.1	71.4	71.5	69.2	69.4
Public net nominal debt	61.4	66.0	66.3	68.2	68.6	68.6	68.7	67.0	67.2	64.8	65.0
Public gross debt, PV	59.6	62.7	63.3	63.6	64.3	63.8	64.2	63.1	63.5	62.0	62.4
Public net debt, PV	55.3	58.3	59.0	59.2	59.9	59.4	59.8	58.8	59.2	57.6	58.0
Gross domestic debt	31.2	33.9	33.8	36.2	36.1	37.4	37.3	36.8	36.7	35.8	35.8
Gross external debt	34.6	36.5	36.8	36.5	36.8	35.5	35.8	34.6	34.8	33.4	33.6
Investment and saving											
Investment	13.3	13.2	13.4	13.5	13.5	14.5	14.5	16.0	16.0	17.4	17.4
General government	5.8	5.7	5.9	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.9
Nongovernment	7.5	7.5	7.5	8.5	8.5	9.5	9.5	11.0	11.0	12.5	12.5
Saving	8.6	8.5	8.7	8.2	8.1	9.1	9.0	10.5	10.4	11.8	11.7
General government	-2.2	-3.3	-3.1	-2.8	-2.9	-0.3	-0.3	2.0	2.0	2.5	2.5
Nongovernment	10.8	11.8	11.9	11.0	11.0	9.4	9.4	8.5	8.5	9.3	9.2
External sector											
Exports (goods and services)	10.9	10.6	10.6	11.5	11.4	12.1	12.0	12.7	12.6	13.1	13.0
Imports (goods and services)	-19.3	-19.1	-19.1	-20.8	-20.8	-21.7	-21.7	-22.4	-22.4	-23.0	-23.0
Current account balance (including grants)	-4.6	-4.7	-4.6	-5.4	-5.4	-5.4	-5.5	-5.5	-5.6	-5.6	-5.7
Gross international reserves											
In billions of US$	9.7	10.1	10.2	9.5	9.6	9.9	9.9	10.6	10.3	12.0	10.6
In months of next year imports	6.0	5.3	5.4	4.5	4.6	4.2	4.3	4.1	4.0	4.2	3.7
Memorandum items:											
GDP at current market prices (Ksh billion)	10,175	11,146	11,109	12,389	12,342	13,754	13,732	15,331	15,306	17,095	17,067
GDP per capita (nominal US$)	2,020	2,082	2,073	2,172	2,154	2,268	2,254	2,384	2,370	2,514	2,499

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, 2019–25
(Calendar year basis)

	2019	2020	2021		2022		2023		2024		2025	
	Actual	Est.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.
			(Annual percentage change, unless otherwise indicated)									
Output, prices, and exchange rate												
Real GDP	5.4	-0.1	7.6	6.3	5.7	6.4	6.1	6.1	6.1	6.1	6.1	6.1
GDP deflator	4.0	8.2	3.9	4.6	4.6	4.4	5.0	5.0	5.1	5.1	5.1	5.1
CPI (period average)	5.2	5.3	5.0	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI (end of period)	5.8	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core inflation (period average) [1]	2.6	2.3	2.1	2.4	5.3	5.4	5.0	5.0	5.0	5.0	5.0	5.0
Exports volume	-0.9	6.4	13.9	13.8	10.0	10.0	10.1	10.1	9.3	9.3	9.1	9.1
Imports volume	6.5	0.3	10.9	9.6	13.7	14.4	12.0	12.0	10.6	10.6	9.0	9.0
Exchange rate (Kenyan shilling/US$)	102.1	106.2	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (depreciation, -)	4.8	-1.5	...	...	...	...	...	...	...	...	...	...
Money and credit												
Broad money (M3)	5.6	13.2	11.8	8.5	10.6	11.1	11.4	11.4	11.0	11.0	11.5	11.5
Reserve money	-6.3	1.9	11.2	8.3	10.1	10.8	11.0	11.2	10.6	10.8	11.2	11.3
Credit to non-government sector	7.1	8.4	7.7	9.4	7.8	9.6	10.1	9.6	10.8	10.6	12.8	13.9
Policy rate	8.5	7.0	...	...	...	...	...	...	...	...	...	...
M3/GDP (percent)	36.2	37.9	37.0	37.0	37.0	37.0	37.0	37.0	36.9	36.9	36.9	36.9
NPLs (percent of total gross loans)	12.0	13.2										
			(Percent of GDP, unless otherwise indicated)									
Central government budget												
Total revenue, grants and unidentified tax policy measures	17.7	17.4	16.9	17.1	17.3	17.4	18.2	18.2	18.5	18.6	18.9	18.9
Tax revenues	14.3	13.3	13.2	13.2	14.2	14.2	15.2	15.2	15.6	15.7	16.0	16.1
Non-tax revenues	3.2	3.7	3.3	3.5	2.8	2.9	2.6	2.6	2.6	2.6	2.5	2.5
Grants	0.2	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Expenditure	25.4	25.7	25.0	25.2	24.0	24.1	23.2	23.3	22.6	22.6	22.1	22.1
Current	19.6	19.8	19.6	19.8	18.9	19.0	18.2	18.2	17.6	17.6	17.2	17.2
Capital	5.8	5.9	5.4	5.4	5.0	5.0	5.0	5.1	5.0	5.0	4.9	4.9
Primary balance	-3.6	-4.1	-3.7	-3.8	-2.0	-2.0	-0.4	-0.4	0.3	0.3	0.9	0.9
Excluding SGR-related spending	-3.0	-3.8	-3.7	-3.7	-2.0	-2.0	-0.4	-0.4	0.3	0.3	0.9	0.9
Overall balance	-7.7	-8.3	-8.1	-8.1	-6.6	-6.7	-5.1	-5.1	-4.0	-4.0	-3.2	-3.2
Excluding SGR-related spending	-7.1	-8.0	-8.0	-8.0	-6.6	-6.7	-5.1	-5.1	-4.0	-4.0	-3.2	-3.2
Excluding grants	-7.9	-8.6	-8.5	-8.5	-7.0	-7.0	-5.4	-5.4	-4.3	-4.3	-3.5	-3.5
Net domestic borrowing	3.9	4.7	5.1	5.1	4.8	4.8	3.6	3.6	2.6	2.6	3.0	3.0
Public debt												
Public gross nominal debt	62.1	68.6	71.5	72.1	72.9	73.1	72.3	72.4	71.8	71.9	70.0	70.1
Public net nominal debt	57.2	64.2	68.5	69.3	70.1	70.9	69.5	69.9	67.7	67.9	66.7	66.7
Public gross debt, PV	56.6	62.7	63.0	63.9	64.2	64.6	63.4	63.8	62.9	63.3	61.1	61.5
Public net debt, PV	51.6	58.3	60.0	61.2	61.4	62.4	60.6	61.3	58.8	59.3	57.8	58.2
Gross domestic debt	30.6	33.0	33.7	33.5	35.4	34.8	35.6	35.2	36.1	35.9	35.0	34.9
Gross external debt	31.5	35.6	37.8	38.5	37.6	38.4	36.7	37.2	35.7	36.0	35.0	35.1
Investment and saving												
Investment	13.8	12.9	13.4	13.4	14.0	14.0	15.0	15.1	17.0	17.0	17.9	17.9
General government	5.8	5.9	5.4	5.4	5.0	5.0	5.0	5.1	5.0	5.0	4.9	4.9
Nongovernment	8.0	7.0	8.0	8.0	9.0	9.0	10.0	10.0	12.0	12.0	13.0	13.0
Saving	8.0	8.3	8.0	8.1	8.6	8.6	9.5	9.5	11.4	11.3	12.3	12.2
General government	-2.0	-2.7	-3.1	-3.0	-1.5	-1.5	0.9	0.9	2.3	2.3	3.4	3.4
Nongovernment	10.0	11.0	11.1	11.1	10.2	10.1	8.7	8.6	9.1	9.1	8.9	8.8
External sector												
Exports (goods and services)	12.1	10.0	11.2	11.1	11.8	11.7	12.4	12.3	12.9	12.8	13.3	13.2
Imports (goods and services)	-21.4	-18.2	-20.4	-20.3	-21.3	-21.3	-22.1	-22.1	-22.8	-22.8	-23.3	-23.3
Current account balance (including grants)	-5.8	-4.6	-5.3	-5.3	-5.4	-5.5	-5.5	-5.5	-5.6	-5.6	-5.6	-5.7
Gross international reserves												
In billions of US$	9.1	8.3	9.3	9.6	9.6	9.7	10.2	10.2	11.0	10.3	12.9	10.8
In months of next year imports	6.1	4.7	4.6	4.8	4.3	4.4	4.1	4.2	4.1	3.8	4.3	3.7
Memorandum items:												
GDP at current market prices (Ksh billion)	9,740	10,525	11,767	11,694	13,011	12,990	14,497	14,474	16,165	16,138	18,025	17,995
GDP per capita (nominal US$)	2,004	2,035	2,129	2,110	2,214	2,199	2,323	2,309	2,446	2,431	2,582	2,567

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Excluding food and fuel.

Table 2a. Kenya: Central Government Financial Operations, 2019/20–2024/25[1]

(billions of Kenyan Shilling)

	2019/20	2020/21			2021/22			2022/23		2023/24		2024/25	
	Prel.	Supplemental Budget	Est.	Program EBS/21/29	Budget	Proj.	Program EBS/21/29	Proj.	Program EBS/21/29	Proj.	Program EBS/21/29	Proj.	Program EBS/21/29
Revenues and grants	**1,753.4**	**1,910.6**	**1,904.4**	**1,898.0**	**2,117.7**	**2,104.0**	**2,080.0**	**2,426.6**	**2,426.6**	**2,844.5**	**2,844.5**	**3,149.2**	**3,149.1**
Revenue	**1,733.6**	**1,837.9**	**1,855.3**	**1,849.2**	**2,055.7**	**2,057.9**	**2,033.9**	**2,379.7**	**2,379.7**	**2,796.4**	**2,796.4**	**3,099.9**	**3,099.8**
Tax revenue (including unidentified tax measures)	1,383.9	1,420.5	1,420.4	1,433.3	1,667.4	1,667.4	1,667.4	2,024.0	2,024.0	2,387.6	2,387.6	2,667.8	2,667.7
Income tax	706.9	697.0	697.0	733.0	834.5	834.4	834.4	942.7	942.7	1,057.4	1,057.5	1,181.1	1,181.2
Personal income	399.2	361.0	361.0	388.7	435.9	435.9	435.9	489.0	489.0	546.2	546.2	607.2	607.2
Corporate income	307.7	336.0	336.0	344.3	398.5	398.5	398.5	453.7	453.7	511.2	511.3	573.9	574.0
Import duty (net)	98.0	102.4	102.4	96.3	119.0	119.0	119.0	136.9	136.9	152.9	152.9	168.2	168.3
Excise duty	195.3	218.0	217.9	208.8	241.0	241.0	241.0	280.9	280.9	311.2	311.2	349.7	349.7
Value-added tax	383.7	403.1	403.1	395.2	472.9	472.9	472.9	552.7	552.7	620.7	620.6	695.1	694.9
Domestic	213.9	197.6	197.6	206.2	249.0	249.0	249.0	275.4	275.4	314.4	314.4	347.9	347.7
Imports	169.8	205.5	205.5	189.0	223.9	223.9	223.9	277.2	277.2	306.2	306.2	347.2	347.2
Nontax revenue	349.7	417.4	434.9	416.0	388.3	390.5	366.5	355.7	355.7	408.8	408.8	432.1	432.1
Investment income	46.0	40.1	40.1	45.1	30.0	30.0	30.0	31.5	31.5	33.1	33.1	34.7	34.7
Other	143.4	118.2	115.7	115.7	78.2	78.2	78.2	86.0	86.0	95.7	95.7	105.0	105.0
Ministerial and Departmental Fees (AIA)	137.0	231.9	251.9	228.0	249.4	251.7	230.5	207.7	207.7	246.9	246.9	256.1	256.1
Railway Levy	23.3	27.2	27.2	27.2	30.6	30.6	27.8	30.4	30.4	33.2	33.2	36.3	36.3
Grants	**19.8**	**72.8**	**49.1**	**48.7**	**62.0**	**46.1**	**46.1**	**46.9**	**46.9**	**48.1**	**48.1**	**49.3**	**49.3**
Project grants	15.2	64.1	41.3	41.3	40.3	43.6	43.6	46.9	46.9	48.1	48.1	49.3	49.3
Program grants	4.6	8.7	7.8	7.4	21.7	2.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**2,545.0**	**2,879.33**	**2,860.0**	**2,864.5**	**3,047.3**	**3,033.7**	**3,010.0**	**3,227.0**	**3,227.0**	**3,510.6**	**3,510.6**	**3,780.6**	**3,780.6**
Recurrent expenditure	**1,961.1**	**2,223.5**	**2,210.0**	**2,226.0**	**2,436.7**	**2,413.6**	**2,387.6**	**2,535.5**	**2,535.5**	**2,739.8**	**2,739.8**	**2,946.2**	**2,946.2**
Transfer to counties	325.3	398.9	398.9	383.0	409.8	409.8	385.3	400.5	400.5	408.8	408.8	425.2	425.2
Interest payments	437.2	460.9	447.8	458.7	560.3	560.3	560.6	644.0	644.0	695.6	695.6	713.8	713.8
Domestic interest	315.4	353.1	340.0	340.0	421.9	421.9	421.7	482.4	482.4	508.0	508.0	518.7	518.7
Foreign interest due	121.8	107.7	107.8	118.7	138.4	138.4	138.9	161.5	161.5	187.6	187.6	195.1	195.1
Wages and benefits (civil service)	449.9	500.6	493.9	493.9	524.5	524.0	535.8	560.7	560.7	595.8	595.8	645.3	645.3
Civil service reform	0.0	3.3	7.3	7.3	20.8	20.8	21.6	22.9	22.9	23.8	23.8	24.8	24.8
Pensions and Other Consolidated Fund Services	89.6	115.3	115.3	115.3	137.2	137.2	137.0	152.9	152.9	167.9	167.9	192.6	192.6
Defense and NSIS	138.0	152.0	152.0	152.0	156.9	156.9	156.9	161.9	161.9	170.0	170.0	170.0	170.0
Other	521.1	592.5	594.8	615.7	627.2	604.7	590.4	592.5	592.5	677.9	677.9	774.5	774.5
Development and net lending	**583.9**	**655.8**	**650.0**	**638.5**	**610.6**	**620.1**	**622.4**	**691.5**	**691.5**	**770.7**	**770.7**	**834.4**	**834.4**
Domestically financed	385.6	405.3	377.5	366.9	329.1	332.0	339.0	378.8	378.8	420.8	420.8	444.4	444.4
of which: SOEs emergency funding			36.3	36.3		0.0							
Foreign financed	197.6	250.5	272.5	271.6	281.4	288.1	283.4	312.7	312.7	349.9	349.9	390.0	390.0
of which: SGR project	44.8	11.9	11.9	11.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.7	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 including measures (cash basis, incl. grants)	**-791.5**	**-968.7**	**-955.6**	**-966.6**	**-929.6**	**-929.7**	**-930.0**	**-800.4**	**-800.4**	**-666.1**	**-666.0**	**-631.4**	**-631.5**
Financing	**791.5**	**976.2**	**955.6**	**966.6**	**929.6**	**929.7**	**930.0**	**800.4**	**800.4**	**666.1**	**666.0**	**631.4**	**631.5**
Net foreign financing	338.5	417.5	415.3	410.1	271.2	283.6	282.6	195.8	195.4	238.6	238.3	226.9	226.6
Disbursements	440.1	769.6	767.4	767.2	884.3	896.7	896.0	474.9	474.5	520.6	520.3	453.8	453.5
Project loans	152.3	221.8	241.7	241.7	273.5	273.5	273.5	302.0	302.0	338.8	338.8	377.6	377.6
Program loans	237.0	185.3	161.2	161.1	135.4	144.3	143.5	67.2	66.9	68.3	68.0	76.2	75.8
of which: IMF (RCF+ proposed EFF/ECF)	78.3		77.6	77.6		58.4	58.4	66.4	66.4	67.3	67.3	0.0	0.0
Non-concessional	5.9	350.5	352.5	352.5	475.3	478.9	478.9	105.6	105.6	113.6	113.6	0.0	0.0
Standard Gauge Railway	44.8	11.9	11.9	11.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-101.6	-352.0	-352.0	-357.2	-613.1	-613.1	-613.4	-279.1	-279.1	-282.1	-282.1	-226.9	-226.9
Net domestic financing	453.1	558.7	540.3	556.5	658.4	646.1	647.4	604.6	605.0	427.5	427.7	404.4	404.9
Memorandum items:													
Nominal GDP	10,175.2	11,168.5	11,109.4	11,145.6	12,393.1	12,342.3	12,389.0	13,732.1	13,754.5	15,306.0	15,331.2	17,066.5	17,095.0
Primary balance incl. grants	-354.3	-507.8	-507.8	-507.8	-369.4	-369.4	-369.4	-156.4	-156.4	29.6	29.6	82.4	82.3
Additional spending for vaccines		7.5	7.5		14.2	14.2							
Adjusted primary Balance (vaccines)		-515.3	-515.3		-383.6	-383.6							
Potential extraordinary SOE support						65.0							
Spending offsets due to SOE supports						32.5							
Adjusted primary balance (vaccines, SOE support)						-416.1							
Debt Service (DS) Relief			38.4	71.0		41.1							
Repayment							8.5	18.1	17.3	17.6	17.4	17.1	17.6
Total gross public debt, gross	6,693.3		7,847.6	7,849.8		9,004.4	8,997.3	10,038.1	10,032.8	10,949.0	10,943.8	11,836.1	11,831.7
external debt	3,515.8		4,088.9	4,072.4		4,545.7	4,518.0	4,913.9	4,888.6	5,328.5	5,302.9	5,734.2	5,708.5
domestic debt	3,177.5		3,758.7	3,777.4		4,458.7	4,479.3	5,124.1	5,144.1	5,620.5	5,641.0	6,101.9	6,123.1
Total net public debt	6,248.2		7,361.6	7,361.3		8,464.4	8,454.3	9,437.3	9,429.9	10,279.4	10,271.9	11,089.5	11,082.4
Unidentified tax policy measures	0		0	0		0	0.0	111	110.8	135	134.6	28	28.3
Pending bills	56.0												
Government deposits [2]	445.1												

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Includes KSh21.9 billion of RCF funds spent in early FY2020/21.

Table 2b. Kenya: Central Government Financial Operations, 2019/20–2024/25[1]

(in percent of GDP)

	2019/20	2020/21			2021/22			2022/23		2023/24		2024/25	
	Prel.	Supplemental Budget	Est.	Program EBS/21/29	Budget	Proj.	Program EBS/21/29	Proj.	Program EBS/21/29	Proj.	Program EBS/21/29	Proj.	Program EBS/21/29
						(in percent of GDP, unless otherwise indicated)							
Revenues and grants	**17.2**	**17.2**	**17.1**	**17.0**	**17.2**	**17.0**	**16.8**	**17.7**	**17.6**	**18.6**	**18.6**	**18.5**	**18.4**
Revenue	**17.0**	**16.5**	**16.7**	**16.6**	**16.7**	**16.7**	**16.4**	**17.3**	**17.3**	**18.3**	**18.2**	**18.2**	**18.1**
Tax revenue (including unidentified tax measures)	13.6	12.8	12.8	12.9	13.5	13.5	13.5	14.7	14.7	15.6	15.6	15.6	15.6
Income tax	6.9	6.3	6.3	6.6	6.8	6.8	6.7	6.9	6.9	6.9	6.9	6.9	6.9
Personal income	3.9	3.2	3.2	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Corporate income	3.0	3.0	3.0	3.1	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.4	3.4
Import duty (net)	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Excise duty	1.9	2.0	2.0	1.9	2.0	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Value-added tax	3.8	3.6	3.6	3.5	3.8	3.8	3.8	4.0	4.0	4.1	4.0	4.1	4.1
Domestic	2.1	1.8	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.0	2.0
Imports	1.7	1.8	1.8	1.7	1.8	1.8	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Nontax revenue	3.4	3.8	3.9	3.7	3.1	3.2	3.0	2.6	2.6	2.7	2.7	2.5	2.5
Investment income	0.5	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.4	1.1	1.0	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Ministerial and Departmental Fees (AIA)	1.3	2.1	2.3	2.0	2.0	2.0	1.9	1.5	1.5	1.6	1.6	1.5	1.5
Railway Levy	0.2	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**	**0.7**	**0.4**	**0.4**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Expenditure and net lending	**25.0**	**25.9**	**25.7**	**25.7**	**24.7**	**24.6**	**24.3**	**23.5**	**23.5**	**22.9**	**22.9**	**22.2**	**22.1**
Recurrent expenditure	**19.3**	**20.0**	**19.9**	**20.0**	**19.7**	**19.6**	**19.3**	**18.5**	**18.4**	**17.9**	**17.9**	**17.3**	**17.2**
Transfer to counties	3.2	3.6	3.6	3.4	3.3	3.3	3.1	2.9	2.9	2.7	2.7	2.5	2.5
Interest payments	4.3	4.1	4.0	4.1	4.5	4.5	4.5	4.7	4.7	4.5	4.5	4.2	4.2
Domestic interest	3.1	3.2	3.1	3.1	3.4	3.4	3.4	3.5	3.5	3.3	3.3	3.0	3.0
Foreign interest due	1.2	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.1	1.1
Wages and benefits (civil service)	4.4	4.5	4.4	4.4	4.2	4.2	4.3	4.1	4.1	3.9	3.9	3.8	3.8
Pensions and Other Consolidated Fund Services	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Defense and NSIS	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.0	1.0
Other	5.1	5.3	5.4	5.5	5.1	4.9	4.8	4.3	4.3	4.4	4.4	4.5	4.5
Development and net lending	**5.7**	**5.9**	**5.9**	**5.7**	**4.9**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**
Domestically financed	3.8	3.6	3.4	3.3	2.7	2.7	2.7	2.8	2.8	2.7	2.7	2.6	2.6
of which: SOEs emergency funding	0.0	0.0	0.3	0.3		0.0							
Foreign financed	1.9	2.3	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
of which: SGR project	0.4	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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
Overall balance incl. measures and grants (cash basis)	**-7.8**	**-8.7**	**-8.6**	**-8.7**	**-7.5**	**-7.5**	**-7.5**	**-5.8**	**-5.8**	**-4.4**	**-4.3**	**-3.7**	**-3.7**
Financing	**7.8**	**8.8**	**8.6**	**8.7**	**7.5**	**7.5**	**7.5**	**5.8**	**5.8**	**4.4**	**4.3**	**3.7**	**3.7**
Net foreign financing	3.3	3.8	3.7	3.7	2.2	2.3	2.3	1.4	1.4	1.6	1.6	1.3	1.3
Disbursements	4.3	6.9	6.9	6.9	7.2	7.3	7.2	3.5	3.5	3.4	3.4	2.7	2.7
Project loans	1.5	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Program loans	2.3	1.7	1.5	1.4	1.1	1.2	1.2	0.5	0.5	0.4	0.4	0.4	0.4
of which: IMF (RCF+ proposed EFF/ECF)	0.8	0.0	0.7	0.7	0.0	0.5	0.5	0.5	0.5	0.4	0.4	0.0	0.0
Non-concessional	0.1	3.2	3.2	3.2	3.9	3.9	3.9	0.8	0.8	0.7	0.7	0.0	0.0
Standard Gauge Railway	0.4	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-1.0	-3.2	-3.2	-3.2	-5.0	-5.0	-5.0	-2.0	-2.0	-1.8	-1.8	-1.3	-1.3
Net domestic financing	4.5	5.0	4.9	5.0	5.3	5.2	5.2	4.4	4.4	2.8	2.8	2.4	2.4
Memorandum items:													
Primary balance incl. grants (Central government)	-3.5	-4.6	-4.6	-4.6	-3.0	-3.0	-3.0	-1.1	-1.1	0.2	0.2	0.5	0.5
Additional spending for vaccines		0.1	0.1		0.1	0.1							
Adjusted primary Balance (vaccines)		-4.6	-4.6		-3.1	-3.1							
Potential extraordinary SOE support						0.5							
Spending offsets due to SOE supports						0.3							
Adjusted primary balance (vaccines, SOE support)						-3.4							
Debt Service (DS) Relief			0.3	0.6		0.3	...	...	...	...	...		
Repayment			...	...		0.0	-0.1	0.1	-0.1	0.1	-0.1	0.1	-0.1
Total gross public debt, gross	65.8		70.6	70.4		73.0	72.6	73.1	72.9	71.5	71.4	69.4	69.2
of which: external debt	34.6		36.8	36.5		36.8	36.5	35.8	35.5	34.8	34.6	33.6	33.4
of which: domestic debt	31.2		33.8	33.9		36.1	36.2	37.3	37.4	36.7	36.8	35.8	35.8
Total gross public debt, PV	59.6		63.3	62.7		64.3	63.6	64.2	63.8	63.5	63.1	62.4	62.0
Total net public debt	61.4		66.3	66.0		68.6	68.2	68.7	68.6	67.2	67.0	65.0	64.8
Unidentified tax policy measures	0.0		0.0	0.0		0.0	0.0	0.8	0.8	0.9	0.9	0.2	0.2
Pending bills	0.6		...	...		...	...	...	...	...	...		

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

Table 2c. Kenya: Central Government Financial Operations, March 2021-June 2022[1]

(billions of Kenyan Shilling)

	2020/21					2021/22		
	Mar.		Jun.			Jun.		
	Prel.	Program EBS/21/29	Est.	Supplemental Budget	Program EBS/21/29	Proj	Budget	Program EBS/21/29
Revenues and grants	**1,263.6**	**1,314.5**	**1,904.4**	**1,910.6**	**1,898.0**	**2,104.0**	**2,117.7**	**2,080.0**
Revenue	**1,245.3**	**1,279.8**	**1,855.3**	**1,837.9**	**1,849.2**	**2,057.9**	**2,055.7**	**2,033.9**
Tax revenue (including unidentified tax measures)	989.7	996.2	1,420.4	1,420.5	1,433.3	1,667.4	1,667.4	1,667.4
Income tax	455.3	486.9	697.0	697.0	733.0	834.4	834.5	834.4
Personal income	251.6	277.5	361.0	361.0	388.7	435.9	435.9	435.9
Corporate income	203.7	209.4	336.0	336.0	344.3	398.5	398.5	398.5
Import duty (net)	80.1	72.3	102.4	102.4	96.3	119.0	119.0	119.0
Excise duty	162.1	150.1	217.9	218.0	208.8	241.0	241.0	241.0
Value-added tax	292.2	286.9	403.1	403.1	395.2	472.9	472.9	472.9
Domestic	139.7	160.7	197.6	197.6	206.2	249.0	249.0	249.0
Imports	152.5	126.2	205.5	205.5	189.0	223.9	223.9	223.9
Nontax revenue	255.6	283.6	434.9	417.4	416.0	390.5	388.3	366.5
Investment income	41.9	28.4	40.1	40.1	45.1	30.0	30.0	30.0
Other	75.1	77.8	115.7	118.2	115.7	78.2	78.2	78.2
Ministerial and Departmental Fees (AIA)	117.6	158.3	251.9	231.9	228.0	251.7	249.4	230.5
Railway Levy	21.0	19.1	27.2	27.2	27.2	30.6	30.6	27.8
Grants	**18.4**	**34.7**	**49.1**	**72.8**	**48.7**	**46.1**	**62.0**	**46.1**
Project grants	15.0	29.5	41.3	64.1	41.3	43.6	40.3	43.6
Program grants	3.3	5.2	7.8	8.7	7.4	2.5	21.7	2.5
Expenditure and net lending	**1,820.7**	**2,054.9**	**2,860.0**	**2,879.3**	**2,864.5**	**3,033.7**	**3,047.3**	**3,010.0**
Recurrent expenditure	**1,450.7**	**1,629.1**	**2,209.9**	**2,223.5**	**2,226.0**	**2,413.6**	**2,436.7**	**2,387.6**
Transfer to counties	209.9	281.5	398.9	398.9	383.0	409.8	409.8	385.3
Interest payments	366.3	334.4	447.8	460.9	458.7	560.3	560.3	560.6
Domestic interest	286.1	246.6	340.0	353.1	340.0	421.9	421.9	421.7
Foreign interest due	80.2	87.9	107.8	107.7	118.7	138.4	138.4	138.9
Wages and benefits (civil service)	352.1	362.9	493.9	500.6	493.9	524.0	524.5	535.8
Civil service reform	0.0	5.5	7.3	3.3	7.3	20.8	20.8	21.6
Pensions and Other Consolidated Fund Services	82.7	92.1	115.3	115.3	115.3	137.2	137.2	137.0
Defense and NSIS	105.9	114.0	152.0	152.0	152.0	156.9	156.9	156.9
Other	333.9	438.7	594.7	592.5	615.7	604.7	627.2	590.4
Development and net lending	**369.9**	**425.8**	**650.0**	**655.8**	**638.5**	**620.1**	**610.6**	**622.4**
Domestically financed	250.7	227.5	377.5	405.3	366.9	332.0	329.1	339.0
of which: SOEs emergency funding			36.3		36.3	65.0		
Foreign financed	119.2	198.3	272.5	250.5	271.6	288.1	281.4	283.4
of which: SGR project	11.5	8.9	11.9	11.9	11.9	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including measures (incl. grants)	**-557.0**	**-740.4**	**-955.6**	**-968.7**	**-966.6**	**-929.7**	**-929.6**	**-930.0**
Adjustments to cash basis	56.0							
Overall balance including measures (with adjustment to cash basis)	**-501.1**	**-740.4**	**-955.6**	**-968.7**	**-966.6**	**-929.7**	**-929.6**	**-930.0**
Financing	**487.7**	**740.4**	**955.6**	**976.2**	**966.6**	**929.7**	**929.6**	**930.0**
Net foreign financing	21.2	81.8	415.3	417.5	410.1	283.6	271.2	282.6
Disbursements	124.9	201.8	767.4	769.6	767.2	896.7	884.3	896.0
Project loans	99.9	105.0	241.7	221.8	241.7	273.5	273.5	273.5
Program loans	7.1	75.3	161.2	185.3	161.1	144.3	135.4	143.5
of which: IMF (RCF+ EFF/ECF)			77.6		77.6	58.4		58.4
Non-concessional	6.4	10.0	352.5	350.5	352.5	478.9	475.3	478.9
Standard Gauge Railway	11.5	11.5	11.9	11.9	11.9	0.0	0.0	0.0
Repayments due	-103.7	-120.0	-352.0	-352.0	-357.2	-613.1	-613.1	-613.4
Net domestic financing	466.5	658.6	540.3	558.7	556.5	646.1	658.4	647.4
Memorandum items:								
Nominal GDP			11,109.4	11,168.5	11,145.6	12,342.3	12,393.1	12,389.0
Primary balance incl. grants	-134.8	-405.9	-507.8	-507.8	-507.8	-369.4	-369.4	-369.4
Additional spending for vaccines			7.5	7.5		14.2	14.2	
Adjusted primary Balance (vaccines)			-515.3	-515.3		-383.6	-383.6	
Potential extraordinary SOE support						65.0		
Spending offsets due to SOE supports						32.5		
Adjusted primary balance (vaccines, SOE support)						-416.1		
Debt Service (DS) Relief			38.4			41.1		
Repayment								

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

Table 3. Kenya: Monetary Survey, Dec. 2019–Dec. 2021

(In billions of Kenyan shillings, unless otherwise indicated)

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
	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	833	801	918	805	738	691	865	786	792
Net domestic assets	-372	-355	-491	-353	-269	-240	-394	-290	-283
Net domestic credit	-168	-117	-217	-86	33	44	-102	11	27
Government (net)	-182	-119	-89	-177	-32	-20	-103	-83	-59
Commercial banks (net)	11	-1	-131	88	61	61	-3	91	83
Other items (net)	-204	-238	-274	-267	-301	-284	-292	-301	-310
Reserve money	461	446	427	452	470	451	471	496	509
Currency outside banks	199	198	211	218	234	226	219	237	244
Bank reserves	262	247	216	235	236	225	252	258	265
Banks									
Net foreign assets	-29	-33	-33	-56	8	0	-33	-34	-34
(in millions of US dollars)	-285	-314	-307	-514	73	-2	-300	-300	-300
Reserves	262	247	216	235	236	225	252	258	265
Credit to CBK	-11	1	131	-88	-61	-61	3	-91	-83
Net domestic assets	3,073	3,214	3,295	3,490	3,508	3,598	3,714	3,809	3,896
Net domestic credit	3,807	3,904	3,992	4,227	4,276	4,379	4,455	4,599	4,676
Government (net)	1,124	1,156	1,211	1,373	1,375	1,426	1,459	1,524	1,551
Other public sector	92	91	88	89	91	89	97	101	101
Private sector	2,591	2,658	2,692	2,765	2,810	2,864	2,899	2,975	3,024
Other items (net)	-734	-690	-697	-737	-768	-781	-741	-791	-780
Total deposits	3,296	3,430	3,609	3,581	3,691	3,762	3,935	3,942	4,043
Monetary survey									
Net foreign assets	804	768	885	749	746	690	831	752	758
Net domestic assets	2,720	2,893	2,978	3,094	3,245	3,340	3,384	3,471	3,573
Net domestic credit	3,628	3,789	3,906	4,053	4,248	4,362	4,355	4,520	4,620
Government (net)	941	1,037	1,122	1,196	1,343	1,406	1,356	1,441	1,492
Other public sector	92	91	88	89	91	89	97	101	101
Private	2,595	2,661	2,695	2,769	2,813	2,867	2,903	2,978	3,027
Other items (net)	-909	-896	-928	-959	-1,003	-1,022	-971	-1,049	-1,047
M1	1,525	1,595	1,667	1,666	1,720	1,717	1,832	1,835	1,860
Money and quasi-money (M2)	2,904	3,019	3,201	3,181	3,250	3,250	3,468	3,474	3,522
M2 plus resident foreign currency deposits (M3)	3,524	3,661	3,864	3,843	3,991	4,030	4,215	4,223	4,331
M3 plus nonbank holdings of government debt (L)	4,927	5,180	5,416	5,520	5,743	5,842	6,111	6,122	6,279
Memorandum items									
	(growth in percent yoy, excluding multipliers and velocity)								
M2	5.4	6.4	8.7	11.0	11.9	7.7	8.3	9.2	8.4
M3	5.6	7.2	8.4	10.7	13.2	10.1	9.1	9.9	8.5
Deposits	7.1	8.4	10.8	9.0	12.0	9.7	9.0	10.1	9.5
Reserve money	-6.3	-2.4	-2.9	10.9	1.9	1.2	10.3	9.6	8.3
Net domestic credit	7.3	8.0	11.9	13.6	17.1	15.1	11.5	11.5	8.8
Government (net)	9.7	7.5	26.0	33.7	42.7	35.6	20.8	20.5	11.1
Private	7.1	8.9	7.7	7.6	8.4	7.7	7.7	7.6	7.6
Net domestic assets of the banking sector	3.7	7.3	13.5	17.3	19.3	15.4	13.6	12.2	10.1
NDA growth (as percent of the base period M3)	2.1	4.2	7.2	9.4	10.7	8.6	7.5	6.8	5.7
Multiplier (Average M2/RM)	6.5	6.7	6.9	6.9	7.0	7.2	7.1	7.1	7.1
Multiplier (Average M3/RM)	7.9	8.1	8.3	8.3	8.6	8.7	8.7	8.7	8.7
Velocity (GDP/M2)	3.4	3.4	3.4	3.4	3.2	3.3	3.2	3.3	3.3
Velocity (GDP/M3)	2.8	2.8	2.8	2.8	2.7	2.6	2.6	2.7	2.7

Sources: Kenyan authorities and IMF staff estimates and projections.

Table 4a. Kenya: Balance of Payments, 2019–25
(BPM6 presentation, in millions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021		2022		2023		2024		2025	
	Actual	Est.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.
Current account	-5,541	-4,564	-5,649	-5,616	-6,099	-6,137	-6,647	-6,657	-7,265	-7,296	-7,857	-7,960
Trade balance	-10,679	-8,349	-10,170	-9,943	-11,519	-11,367	-12,857	-12,689	-14,384	-14,200	-15,847	-15,649
Goods: exports, f.o.b.	5,872	6,061	7,068	7,088	7,776	7,804	8,650	8,681	9,597	9,632	10,583	10,623
Coffee	205	209	247	247	281	281	313	313	336	336	364	364
Tea	1,115	1,248	1,362	1,362	1,465	1,465	1,591	1,591	1,743	1,743	1,903	1,903
Horticulture	991	1,097	1,390	1,390	1,527	1,527	1,675	1,675	1,854	1,854	2,007	2,007
Other	3,560	3,507	4,069	4,089	4,504	4,532	5,070	5,102	5,663	5,699	6,309	6,349
Goods: imports, f.o.b.	16,551	14,410	17,239	17,031	19,296	19,171	21,507	21,371	23,980	23,832	26,430	26,272
Oil products	3,310	2,468	3,763	3,717	3,939	3,914	4,119	4,093	4,387	4,360	4,687	4,659
Other	13,242	11,942	13,476	13,314	15,356	15,257	17,388	17,278	19,593	19,473	21,742	21,613
Capital imports	4,686	4,100	4,633	4,579	5,276	5,244	6,025	5,989	6,837	6,797	7,614	7,572
Services balance	1,767	239	488	275	874	671	1,174	992	1,530	1,309	1,839	1,531
Services, credit	5,621	3,834	4,840	4,578	5,555	5,325	6,349	6,139	7,193	6,942	8,077	7,737
Transportation	2,200	1,053	1,679	1,522	2,032	1,884	2,460	2,281	2,851	2,669	3,265	3,056
Travel	1,007	419	588	484	731	649	867	835	1,070	1,001	1,266	1,135
Services, debit	3,854	3,595	4,351	4,303	4,680	4,654	5,175	5,147	5,663	5,633	6,238	6,205
Transportation	1,448	1,172	1,500	1,482	1,679	1,668	1,872	1,860	2,087	2,074	2,300	2,286
Goods and services balance	-8,912	-8,111	-9,682	-9,668	-10,645	-10,696	-11,683	-11,698	-12,854	-12,891	-14,008	-14,118
Primary income, balance	-1,914	-1,428	-1,979	-1,962	-2,077	-2,065	-2,224	-2,220	-2,291	-2,286	-2,352	-2,345
Credit	230	148	99	100	157	159	182	182	192	193	371	371
Debit	2,144	1,576	2,078	2,062	2,235	2,224	2,406	2,402	2,483	2,479	2,722	2,716
Secondary income, balance	5,285	4,975	6,012	6,015	6,623	6,624	7,260	7,260	7,880	7,880	8,502	8,502
Credit	5,340	5,026	6,064	6,066	6,678	6,678	7,318	7,318	7,942	7,942	8,568	8,568
Remittances	2,796	3,094	3,434	3,434	3,862	3,862	4,255	4,255	4,547	4,547	4,944	4,944
Debit	55	51	52	51	55	55	58	58	62	62	66	65
Capital account	208	130	382	381	392	390	396	395	392	390	406	404
Financial account	-6,239	-2,783	-3,150	-3,350	-5,366	-5,103	-5,958	-5,969	-7,529	-7,562	-9,415	-9,520
Foreign direct investment	-1,132	-244	-361	-362	-478	-479	-614	-615	-780	-781	-973	-974
Direct investment, assets	205	155	165	164	166	165	166	165	179	179	186	185
Direct investment, liabilities	1,337	398	526	526	643	643	780	780	959	959	1,159	1,159
Portfolio investment	-1,312	1,389	1,312	1,306	1,471	1,466	1,533	1,527	1,598	1,591	1,665	1,659
Portfolio investment, assets	955	1,202	1,370	1,367	1,533	1,530	1,600	1,597	1,669	1,666	1,742	1,740
Portfolio investment, liabilities	2,268	-187	58	61	62	65	66	70	71	75	77	81
Equity and investment fund shares	14	-271	60	62	63	66	68	71	73	77	79	83
Debt securities	2,254	84	-2	-1	-2	-2	-2	-2	-2	-2	-2	-2
o/w Eurobond issuance	2,100	0	0	0	0	0	0	0	2,000	2,000	0	0
Financial derivatives	-5	-9	0	0	0	0	0	0	0	0	0	0
Other investment	-3,789	-3,920	-4,101	-4,294	-6,359	-6,090	-6,877	-6,882	-8,347	-8,373	-10,108	-10,205
Other investment, assets	573	1,012	835	835	807	807	885	885	842	842	845	845
Other investment, liabilities	4,362	4,932	4,936	5,129	7,166	6,897	7,762	7,767	9,189	9,215	10,952	11,050
Net errors and omissions	154	885	0	0	0	0	0	0	0	0	0	0
Overall balance ("+" indicates a surplus)	1,059	-765	-2,116	-1,884	-341	-644	-293	-293	657	657	1,964	1,964
Reserves and related items	1,059	-765	-2,116	-1,884	-341	-644	-293	-293	657	657	1,964	1,964
Reserve assets (gross)	905	-819	997	1,323	350	50	559	559	858	858	1,814	1,814
Use of Fund credit and loans (net)	-154	-53	848	859	424	427	601	601	201	201	-150	-150
Disbursements (Proposed ECF/EFF Program) /1	0	0	979	990	503	506	646	646	232	232	0	0
Repayments	154	53	131	131	79	79	46	46	31	31	150	150
DSSI 2/	0	0	639	723	0	0	0	0	0	0	0	0
Unidentified Financing 3/	0	0	0	0	268	268	252	252	0	0	0	0
Exceptional financing	0	0	1,625	1,625	0	0	0	0	0	0	0	0
Memorandum items:												
Gross official reserves (end of period)	9,116	8,284	9,280	9,607	9,630	9,657	10,189	10,216	11,047	11,074	12,861	12,888
(in months of next year's imports)	6.1	4.7	4.6	4.8	4.3	4.4	4.1	4.2	4.1	4.1	4.3	4.4
(in months of 3-year-rolling average imports) 4/	5.5	5.1	5.6	4.3	5.5	3.2	5.1	3.0	5.0	2.9	5.2	3.1
(in percent of M3)	25.9	20.8	21.3	22.2	20.0	20.1	19.0	19.1	18.5	18.6	19.4	19.4
WEO oil price (APSP; US$)	61.4	41.3	58.5	58.5	54.8	54.8	52.5	52.5	51.3	51.3	50.7	50.7
Terms of trade 5/	2.6	9.7	-4.3	-4.3	1.3	1.3	1.1	1.1	0.3	0.3	-0.2	-0.2

Sources: Kenyan authorities and IMF staff estimates and projections.
1/ Past disbursements included to Other Investments.
2/ Assumes DSSI Modalities: one-year grace period; five-year repayment period.
3/ Scheduled debt service to DSSI creditors in 2022 and 2023 assumes rollover rate of 90 percent.
4/ CBK definition of reserve cover: in months of imports of goods and services over the previous 36 months (annualized rolling average).
5/ Percentage change, goods and services.

Table 4b. Kenya: Balance of Payments, 2019–25

(BPM6 presentation, in percent of GDP)

	2019	2020	2021		2022		2023		2024		2025	
	Actual	Est.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.	Prg. EBS/21/29	Proj.
Current account	-5.8	-4.6	-5.3	-5.3	-5.4	-5.5	-5.5	-5.5	-5.6	-5.6	-5.6	-5.7
Trade balance	-11.2	-8.4	-9.6	-9.5	-10.2	-10.2	-10.6	-10.6	-11.1	-11.0	-11.3	-11.2
Goods: exports, f.o.b.	6.2	6.1	6.7	6.7	6.9	7.0	7.2	7.2	7.4	7.4	7.5	7.6
Coffee	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Tea	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4
Horticulture	1.0	1.1	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other	3.7	3.5	3.8	3.9	4.0	4.0	4.2	4.2	4.4	4.4	4.5	4.5
Goods: imports, f.o.b.	17.4	14.5	16.3	16.2	17.1	17.1	17.8	17.8	18.4	18.4	18.8	18.8
Oil products	3.5	2.5	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.3	3.3
Other	13.9	12.0	12.7	12.7	13.6	13.6	14.4	14.4	15.1	15.1	15.5	15.5
Capital imports	4.9	4.1	4.4	4.4	4.7	4.7	5.0	5.0	5.3	5.3	5.4	5.4
Services balance	1.9	0.2	0.5	0.3	0.8	0.6	1.0	0.8	1.2	1.0	1.3	1.1
Services, credit	5.9	3.9	4.6	4.4	4.9	4.8	5.3	5.1	5.5	5.4	5.8	5.5
Transportation	2.3	1.1	1.6	1.4	1.8	1.7	2.0	1.9	2.2	2.1	2.3	2.2
Travel	1.1	0.4	0.6	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.8
Services, debit	4.0	3.6	4.1	4.1	4.2	4.2	4.3	4.3	4.4	4.4	4.4	4.4
Transportation	1.5	1.2	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Goods and services balance	-9.3	-8.2	-9.1	-9.2	-9.4	-9.6	-9.7	-9.7	-9.9	-10.0	-10.0	-10.1
Primary income, balance	-2.0	-1.4	-1.9	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.7	-1.7
Credit	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.3	0.3
Debit	2.2	1.6	2.0	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9
Secondary income, balance	5.5	5.0	5.7	5.7	5.9	5.9	6.0	6.0	6.1	6.1	6.1	6.1
Credit	5.6	5.1	5.7	5.8	5.9	6.0	6.1	6.1	6.1	6.1	6.1	6.1
Remittances	2.9	3.1	3.2	3.3	3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5
Debit	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital account	0.2	0.1	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Financial account	-6.5	-2.8	-3.0	-3.2	-4.8	-4.6	-4.9	-5.0	-5.8	-5.8	-6.7	-6.8
Foreign direct investment	-1.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7	-0.7
Direct investment, assets	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Direct investment, liabilities	1.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.8
Portfolio investment	-1.4	1.4	1.2	1.2	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2
Portfolio investment, assets	1.0	1.2	1.3	1.3	1.4	1.4	1.3	1.3	1.3	1.3	1.2	1.2
Portfolio investment, liabilities	2.4	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Equity and investment fund shares	0.0	-0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Debt securities	2.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Eurobond issuance	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.5	0.0	0.0
Financial derivatives	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 investment	-4.0	-4.0	-3.9	-4.1	-5.6	-5.4	-5.7	-5.7	-6.4	-6.5	-7.2	-7.3
Other investment, assets	0.6	1.0	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.7	0.6	0.6
Other investment, liabilities	4.6	5.0	4.7	4.9	6.4	6.2	6.4	6.5	7.1	7.1	7.8	7.9
o/w Public commercial borrowing	1.6	0.6	1.1	1.1	1.1	1.1	0.5	0.5	0.5	0.5	1.0	1.0
Net errors and omissions	0.2	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance ("+" indicates a surplus)	1.1	-0.8	-2.0	-1.8	-0.3	-0.6	-0.2	-0.2	0.5	0.5	1.4	1.4
Reserves and related items	1.1	-0.8	-2.0	-1.8	-0.3	-0.6	-0.2	-0.2	0.5	0.5	1.4	1.4
Reserve assets (gross)	0.9	-0.8	0.9	1.3	0.3	0.0	0.5	0.5	0.7	0.7	1.3	1.3
Use of Fund credit and loans (net)	-0.2	-0.1	0.8	0.8	0.4	0.4	0.5	0.5	0.2	0.2	-0.1	-0.1
Disbursements (Proposed ECF/EFF Program) 1/	0.0	0.0	0.9	0.9	0.4	0.5	0.5	0.5	0.2	0.2	0.0	0.0
Repayments	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1
DSSI 2/	0.0	0.0	0.6	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified Financing 3/	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	1.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Gross official reserves (end of period)	9.6	8.4	8.8	9.1	8.5	8.6	8.4	8.5	8.5	8.6	9.2	9.2
Exports of goods and nonfactor services	12.1	10.0	11.2	11.1	11.8	11.7	12.4	12.3	12.9	12.8	13.3	13.2
Imports of goods and nonfactor services	21.4	18.2	20.4	20.3	21.3	21.3	22.1	22.1	22.8	22.8	23.3	23.3

Sources: Kenyan authorities and IMF staff estimates and projections.

1/ Past disbursements included to Other Investments.
2/ Debt service coming due in 2020. Assumes DSSI Modalities: one-year grace period; five-year repayment period.
3/ Scheduled det service to DSSI creditors in 2022 and 2023 assumes rollover rate of 90 percent.

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

December 2019–March 2021

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21
Capital adequacy								
Regulatory capital to risk-weighted assets	18.8	18.5	18.5	18.2	19.2	19.4	19.7	18.8
Regulatory tier 1 capital to risk-weighted assets	16.8	16.4	16.4	16.3	16.7	17.0	17.2	16.5
Total capital to total assets	14.8	14.5	14.2	14.2	14.6	15.0	14.7	14.5
Asset quality								
Non-performing loans to total gross loans[1]	12.0	12.5	13.1	13.6	14.1	14.3	14.5	14.6
Bank provisions to NPLs	62.9	66.1	67.3	70.4	71.4	71.5	70.8	71.5
Non-performing loans net of provisions to capital	16.1	16.7	16.9	15.9	15.3	15.1	15.9	15.8
Earning assets to total assets	91.9	92.1	91.6	93.8	93.6	94.3	94.2	93.9
Earning and profitability								
Return on assets (ROA)	2.5	2.3	0.7	1.8	1.6	2.6	2.6	2.6
Return on equity (ROE)	21.2	20.4	15.6	15.1	13.8	22.0	21.9	22.0
Interest margin to gross income	25.2	24.1	24.1	23.6	23.6	23.8	23.9	24.0
Non-interest expenses to gross income	43.9	46.3	51.4	52.6	54.6	42.9	42.4	43.1
Liquidity								
Liquid assets to total assets	39.3	39.8	41.9	41.5	42.5	42.5	42.8	43.0
Liquid assets to short-term liabilities	49.7	51.4	52.8	53.2	54.6	54.9	55.7	56.3
Liquid assets to total deposits	53.2	53.8	55.6	55.8	57.1	57.2	57.4	57.3
Total loans to total deposits	77.7	77.0	74.2	75.3	74.3	74.8	74.2	73.6
Sensitivity to market risk								
Net open position in foreign exchange to capital	1.7	1.7	1.8	2.3	1.6	1.6	1.5	1.6
Interest bearing assets to interest bearing liabilities	124.4	124.4	121.6	126.1	125.6	126.9	126.2	125.1
FX currency denominated assets to total assets	15.1	15.8	15.6	15.3	15.3	15.2	15.2	14.7
FX currency denominated liabilities to total liabilities	24.4	24.7	24.3	24.1	26.4	26.3	27.2	27.0
Spread between lending and deposit rate	5.6	5.6	5.5	5.3	5.5	5.4	5.3	5.5

Source: Central Bank of Kenya.

[1] The data for Chase Bank in receivership and Charterhouse Bank under statutory management have been excluded from May 2016 onward.

Table 6. Kenya: Schedule of Approval, Prospective Reviews, and Available Purchases and Loans, 2021–24

Availability Date	Condition	Available Purchases under GRA			Available Loans under PRGT			Total Available Purchases and Loans		Total Available
		SDR millions	Percent of quota	USD millions	SDR millions	Percent of quota	USD millions	SDR millions	Percent of quota	USD millions
April 2, 2021	Approval of the 38-month EFF and ECF arrangements	141.13	26.00	203.56	75.99	14.00	109.61	217.12	40.00	313.17
June 20, 2021	Completion of the first EFF-ECF reviews and observance of continuous and end-March 2021 performance criteria.	198.12	36.50	285.77	86.85	16.00	125.27	284.97	52.50	411.04
November 7, 2021	Completion of the second EFF-ECF reviews and observance of continuous and end-June 2021 performance criteria.	135.70	25.00	195.73	48.85	9.00	70.46	184.55	34.00	266.20
May 7, 2022	Completion of the third EFF-ECF reviews and observance of continuous and end-December 2021 performance criteria.	141.13	26.00	203.56	38.00	7.00	54.81	179.13	33.00	258.38
November 7, 2022	Completion of the fourth EFF-ECF reviews and observance of continuous and end-June 2022 performance criteria.	135.70	25.00	195.73	38.00	7.00	54.81	173.70	32.00	250.54
May 7, 2023	Completion of the fifth EFF-ECF reviews and observance of continuous and end-December 2022 performance criteria.	181.84	33.50	262.28	43.42	8.00	62.63	225.26	41.50	324.92
November 7, 2023	Completion of the sixth EFF-ECF reviews and observance of continuous and end June 2023 performance criteria.	184.55	34.00	266.20	43.42	8.00	62.63	227.97	42.00	328.82
May 7, 2024	Completion of the seventh EFF-ECF reviews and observance of continuous and end December 2023 performance criteria.	130.27	24.00	187.90	32.56	6.00	46.96	162.83	30.00	234.87
Total		1,248.44	230.00	1,800.75	407.09	75.00	587.19	1,655.53	305.00	2,387.93

Source: IMF staff estimates.

Table 7. Kenya: Indicators of Fund Credit, 2021–30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit										
(In millions of SDRs)										
Total	59.6	51.9	23.2	1.6	67.6	141.1	148.4	148.2	147.9	93.4
Principal	58.8	50.3	21.6	0.0	66.0	139.7	147.3	147.3	147.3	93.0
Charges and interest	0.8	1.6	1.6	1.6	1.6	1.4	1.2	0.9	0.7	0.4
Obligations to the Fund from existing										
and prospective credit										
(In millions of SDRs)	58.8	50.5	21.7	0.1	82.7	215.9	295.3	367.8	394.9	343.9
Principal	58.8	50.3	21.6	0.0	82.6	215.8	295.2	367.7	394.8	343.8
Charges and interest	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
SDR Charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
GRA Charges	1.5	5.7	8.8	12.4	13.1	12.6	11.6	10.0	7.8	5.6
GRA Surcharges	0.0	0.0	0.0	3.2	4.6	3.7	1.7	0.0	0.0	0.0
GRA Service Charges	1.7	1.4	1.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Obligations to the Fund from existing and										
prospective credit										
In millions of U.S. dollars	83.2	71.4	30.7	0.2	116.9	305.4	417.7	520.3	558.7	486.5
In percent of gross international reserves	0.9	0.7	0.3	0.0	0.9	2.3	3.0	3.4	3.4	2.7
In percent of exports of goods and services	0.7	0.5	0.2	0.0	0.6	1.5	1.9	2.2	2.2	1.7
In percent of GDP	0.1	0.1	0.0	0.0	0.1	0.2	0.2	0.3	0.3	0.2
In percent of quota	10.8	9.3	4.0	0.0	15.2	39.8	54.4	67.8	72.8	63.4
Outstanding Fund credit based on existing drawings										
(end-of-period, all PRGT)										
In millions of SDRs	831.8	781.5	759.9	759.9	693.9	554.2	406.9	259.6	112.4	19.4
In percent of quota	153.2	144.0	140.0	140.0	127.8	102.1	75.0	47.8	20.7	3.6
Outstanding Fund credit based on existing and										
prospective drawings (end-of-period)										
In millions of SDRs	1,301.4	1,603.9	2,035.5	2,198.3	2,115.8	1,900.0	1,604.9	1,237.2	842.4	498.6
In millions of U.S. dollars	1,840.9	2,268.8	2,879.4	3,109.7	2,993.0	2,687.8	2,270.2	1,750.2	1,191.7	705.4
In percent of gross international reserves	19.2	23.5	28.2	28.1	23.2	20.6	16.1	11.5	7.3	4.0
In percent of exports of goods and services	15.8	17.3	19.4	18.8	16.3	13.5	10.4	7.4	4.6	2.5
In percent of GDP	1.7	1.9	2.2	2.2	2.0	1.6	1.3	0.9	0.6	0.3
In percent of quota	239.7	295.5	375.0	405.0	389.8	350.0	295.7	227.9	155.2	91.9
Memorandum items:										
Exports of goods and services (in billions of U.S. dollars)	11.7	13.1	14.8	16.6	18.4	20.0	21.8	23.7	25.7	28.0
Gross international reserves (in billions of U.S. dollars)	9.6	9.7	10.2	11.1	12.9	13.1	14.1	15.2	16.4	17.7
Debt service, existing drawings (in millions of U.S. dollars)	9,733	10,410	12,358	14,501	13,245	12,578	13,971	17,077	17,256	19,493
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
SDR per USD (as at September 28, 2020)	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71

Source: IMF staff estimates and projections.

Table 8. Kenya: External Financing Requirements and Sources, 2019–25

	2019	2020	2021	2022	2023	2024	2025
	Actual	Projected					
	(USD mn)						
Total requirements	8,362	6,177	7,086	8,373	8,927	11,624	10,592
Current account deficit	5,541	4,564	5,616	6,137	6,657	7,296	7,960
Capital outflows	2,821	1,613	1,470	2,236	2,270	4,328	2,632
Repayments of MLT loans (public sector)	1,867	1,458	1,306	2,071	2,105	2,149	2,447
Portfolio investment (sovereign bond) 5/	750	0	0	0	0	2,000	0
Foreign direct investment abroad	205	155	164	165	165	179	185
Total sources	9,422	5,412	5,202	7,728	8,634	12,281	12,556
Public sector	7,761	3,583	3,582	4,617	3,633	6,218	5,365
Project grants	208	130	381	390	395	390	404
MLT loan disbursements to public sector	5,454	3,453	3,201	4,227	3,239	3,828	4,961
Portfolio investment (sovereign bond) 5/	2,100	0	0	0	0	2,000	0
Private sector	1,660	1,829	1,620	3,111	5,001	6,062	7,191
Foreign direct investment in Kenya	1,337	398	526	643	780	959	1,159
Other net flows (including errors and omissions)	323	1,430	1,094	2,468	4,221	5,103	6,032
Financing gap (- =excess of financing)	-1,059	765	1,884	644	293	-657	-1,964
Additional financing sources	-1,059	765	1,884	644	293	-657	-1,964
IMF (net) 1/	-154	-53	859	427	601	201	-150
Disbursements (ECF/EFF Program)	0	0	990	506	646	232	0
Repayments	154	53	131	79	46	31	150
World Bank and Other 2/	0	0	1,625	0	0	0	0
DSSI 3/	0	0	723	0	0	0	0
Unidentified Financing 4/	0	0	0	268	252	0	0
Reserve accumulation(- =increase)	-905	819	-1,323	-50	-559	-858	-1,814
	(percent of GDP)						
Total requirements	8.8	6.2	6.7	7.5	7.4	9.0	7.6
Total sources	9.9	5.5	5.0	6.9	7.2	9.5	9.0
Capital inflows	11.0	4.7	5.4	6.6	7.1	10.0	10.4
IMF (net)	-0.2	-0.1	0.8	0.4	0.5	0.2	-0.1
Reserve accumulation (- = increase)	-0.9	0.8	-1.3	0.0	-0.5	-0.7	-1.3

Sources: Kenyan authorities and IMF staff estimates and projections.

1/ Past disbursements are included in MLT loans to government.
2/ In 2021 it reflects $1.5 billion from World Bank DPOs and $125 million from AfDB.
3/ Assumes DSSI Modalities: one-year grace period; five-year repayment period.
4/ Scheduled det service to DSSI creditors in 2022 and 2023 assumes rollover rate of 90 percent.
5/ Does not assume debt management operations.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood /Time Horizon	Expected Impact on Economy	Policy Response
Potential External Shocks			
Covid-19 resurgence Limited access to, and longer-than-expected deployment of vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects.	Medium **Short to Medium Term**	**High.** This could adversely impact growth, spur capital outflows from the private sector and pressure the exchange rate. Fiscal balances would worsen, including due to balance sheet scarring in the private sector, and debt vulnerabilities would rise further.	▪ Reprioritize spending to support the vulnerable while compressing overall expenditure to contain the negative fiscal-debt impact. ▪ Maintain exchange rate flexibility. ▪ Accelerate reforms to address structural weakness affecting competitiveness.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. A reassessment of market fundamentals (e.g., in response to adverse Covid-19 developments) triggers a widespread risk-off event. Financing difficulties extend to sovereigns with excessive public debt.	Medium **Short to Medium Term**	**High.** This could trigger capital outflows from the private sector and hamper capital market access by the sovereign. The exchange rate would depreciate, the fiscal balances would worsen, and debt vulnerabilities would rise further.	▪ Compress expenditure to contain the negative fiscal-debt impact. ▪ Maintain exchange rate flexibility.
Oversupply and volatility in the oil market.	Medium **Short to Medium Term**	**High.** This would be a positive shock for Kenya, easing potential external balance pressures from other sources.	▪ If needed to meet fiscal objectives, capitalize on lower fuel prices by aligning fuel VAT to the standard rate.
Cyber-attacks	Medium **Short to Medium Term**	**Medium.** Such attacks can trigger financial instability or widely disrupt socio-economic activities.	▪ Continue reforms to strengthen cyber security capabilities at both government and private sector level.
Higher frequency and severity of natural disasters	Medium /Low **Short to Medium Term**	**High.** This would lead to slower growth, an increase in food inflation, pressures on public spending and the current account, and adversely affect vulnerable households.	▪ Guard against second-round effects on inflation. ▪ Use targeted programs to help vulnerable groups and reprioritize spending.

[1] 1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively

Source of Risks	Likelihood /Time Horizon	Expected Impact on Economy	Policy Response
Potential Domestic Shocks			
A resumption of adverse weather conditions or locust invasion	**Medium** **Short Term to Medium Term**	**High / Low.** Depending on the geographical area impacted this could lead to lower agricultural production and slower growth, an increase in food inflation, pressures on public spending and the current account, and adversely affect vulnerable households.	▪ Use targeted programs to help vulnerable groups and reprioritize spending. ▪ Guard against second-round effects on inflation if necessary.
Political risks	**Medium** **Short to Medium Term**	**High**. Political violence could emerge around the planned 2021 referendum and 2022 presidential election as seen in previous elections.	▪ Remain committed to reforms under the program.
Emergence of greater-than-expected weaknesses in the SOE sector	**Medium** **Short to Medium Term**	**Medium**. This would create additional fiscal pressures, potentially leading to further crowding out of the private sector, although the magnitude would be highly uncertain.	▪ Carry out financial evaluation of health of top SOEs. ▪ Prepare and carry out strategy for addressing SOE financial pressures.
Deterioration in security situation	**Medium** **Short to Medium Term**	**High.** This would adversely affect recovery of the tourism sector, foreign direct investment and portfolio inflows and, in turn, growth.	▪ Reprioritize fiscal spending to accommodate security needs; and ▪ Maintain policies to improve macro fundamentals (e.g., structural and governance reforms). ▪ Strengthen and robustly implement AML/CFT framework to help prevent, detect, and disrupt the financing of terrorism.
Risks from poor implementation capacity, fiscal pressures in the run-up to the election, and weak program ownership	**Low** **Short to Medium Term**	**Medium**. This would lead to higher budget deficits, which would increase debt ratios, crowd out private investment, and ultimately weaken growth.	▪ Remain committed to fiscal targets and reforms under the program.

Appendix I. Letter of Intent

Nairobi, Kenya
June 10, 2021

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

Dear Ms. Georgieva:

More than one year after the first case of COVID-19 was confirmed in the country, Kenya is still dealing with the fallout from this global pandemic. The country has experienced three consecutive waves of COVID-19 infections, with the latest having yet to fully recede. Thanks to a speedy and robust response by the government, Kenyans' resilience, and our tradition of "Harambee" or pulling together, we have managed to limit the overall spread of the virus so far. However, the economic consequences of this prolonged crisis have been significant, and we now face the formidable task of recapturing our growth momentum while tending to the social and health needs of the population, including our plans to accelerate our COVID-19 vaccination program.

To meet this policy challenge, and supported by our existing arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF), our economic program has four main objectives: (1) in the near term, ensure an effective COVID-19 response that maintains support for our health sector and those most impacted by the shock to the economy; (2) reduce debt vulnerabilities through a revenue-driven fiscal consolidation so that the ratio of public debt to GDP stabilizes and is put firmly on a downward path during the program; (3) advance the structural reform and governance agenda and address weaknesses in state-owned enterprises (SOEs); and (4) strengthen the monetary policy framework and support financial stability.

We have made significant inroads towards meeting our policy objectives, despite the impact of the third wave of COVID-19 cases. Our primary balance target for end-March 2021 was comfortably met, even as revenues fell short of expectations reflecting the economic slowdown from the third COVID-19 wave. We maintained the momentum on public financial management reforms, including in the areas of public investment management and fiscal reporting. We have also made progress in assessing financial risks from SOEs.

The economy shows signs of recovery, thanks in part to the government's response detailed in our Memorandum below, and the resilience of the Kenyan private sector. We expect GDP growth to return to 6.3 percent levels in 2021 and settle around 6 percent over the medium term. Inflation is projected to remain near the mid-point of the target range in 2021 and through the medium term.

The current account deficit is considered to be reasonable, and is projected to widen modestly, in line with recovering imports. We remain committed to our fiscal consolidation path, to put debt firmly on a downward path, and intend to crystalize this commitment by introducing a new debt anchor consistent with our policy objective.

We believe that the policies and actions set out in the attached Memorandum of Economic and Financial Policies (MEFP) will enable us to achieve our program objectives. We are committed to working closely with IMF staff on additional measures that may be required to meet program objectives. We will work closely with IMF staff to ensure that the program is successful and will provide the IMF with the relevant information necessary for monitoring our progress.

We authorize the publication of this letter of intent, the attached MEFP, the technical memorandum of understanding, and the related staff report upon clearance with the authorities.

Sincerely yours,

/s/

Hon. (Amb.) Ukur Yatani, EGH
Cabinet Secretary
National Treasury & Planning

/s/

Dr. Patrick Njoroge, CBS
Governor
Central Bank of Kenya

Attachments (2):

I. Memorandum of Economic and Financial Policies (MEFP)

II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

Nairobi, Kenya, June 10, 2021

I. BACKGROUND

1. **Kenya continues to deal with the impact of the COVID-19 pandemic.** While the overall spread of the virus in the country has been limited so far—with about 2.9 confirmed cases per 1,000 population and a fatality rate of less than 2 percent as of end-April 2021—the potential of a new wave of infections continues to weigh on the lives and livelihoods of Kenyans. The Government has rolled out a COVID-19 vaccination program and continues to implement measures to contain the spread of the virus. However, the pandemic remains a major public-health threat and has caused widespread losses of income, threatening to reverse years of progress in poverty reduction.

2. **The country has been hit with three successive waves of COVID-19 infections, with the latest emerging in early March 2021.** However, the cases of new infections and positivity rates have dropped in May. Much the same as elsewhere around the world, Kenya's COVID-19 case count quickly climbed following the confirmation of the first case, peaking during the summer of 2020. This was followed by a sharp drop in infections and a gradual relaxing of containment measures in successive steps. COVID-19 cases have since flared up again in two successive waves, peaking respectively in November 2020 and end-March 2021, both requiring some selective tightening of containment measures. The latest wave began just before the approval of our EFF/ECF-supported program and necessitated a partial lockdown in Nairobi and four neighboring counties. These measures were lifted in early-May as the case count moderated again. Current containment measures include a 10pm to 4am curfew, restrictions on operating practices of bars and restaurants, and caps on attendance at various types of gatherings.

3. **The Kenyan government moved quickly starting from the onset of the crisis to contain the spread of the virus and shore up healthcare capacity.** An inter-ministerial committee was put in place, weeks before the first case was confirmed, to lead the country's response plan. As the case count started to climb, and to protect vulnerable people from an uncontained spreading of the virus, a series of lockdown measures were introduced, including border closures, a countrywide nighttime curfew, a ban on large gatherings, and restaurant, bar and school closures. Isolation facilities were quickly put in place along with tracing and quarantining of at-risk individuals. In parallel, a major push was made to upgrade the country's healthcare capacity, with the number of isolation beds for infectious diseases being raised from 8 in early-March 2020 to 7,411 by end-September 2020.

4. **We promptly brought forward a series of policy measures to support households and businesses through the crisis.** Policies under our 8-point *Economic Stimulus Programme* (ESP) include a new employment program to support the youth, a guarantee scheme to ease access to credit for MSMEs, cash transfers to the vulnerable members of society, and the fast-tracked payment of VAT refunds and government obligations among others. We also reduced the tax burden on individuals and corporations in the context of the Tax Law Amendment Act (2020), to provide much

needed support and additional disposable income to households and businesses. The Central Bank of Kenya (CBK) lowered its policy rate and took measures to temporarily ease repayment conditions for borrowers to support businesses and households impacted by the pandemic. Other key policies from the CBK include a series of liquidity support measures and waived or reduced charges on mobile money transactions to disincentivize the use of cash. Mobile money has been the backbone for the cash transfer during the pandemic, with mobile money accounts held by more than double the adult population.

5. Our Post-COVID-19 Economic Recovery Strategy (ERS) aims at setting the foundations of a shared recovery and re-position the economy on a strong and sustainable growth path. The ERS builds on the gains made under the Economic Stimulus Plan (ESP) and will focus on the following policy priorities: (i) enhancing budgetary allocations to strengthen healthcare systems; (ii) investment in ICT and digital infrastructure; (iii) facilitating the private sector to play a larger role in the recovery strategy; (iv) facilitating a green and resilient recovery and growth; (v) increasing the resilience of the economy to global supply chain shocks; (vi) support to MSMEs; (vii) full and timely implementation of the ESP; (viii) enhancement of targeted social protection; (ix) strengthening the national capacity for disaster risk management; (x) mainstreaming diaspora financial and intellectual resources; (xi) enhanced budgetary support to police and security related services to enforce compliance to COVID-19 containment rules and regulations; (xii) strengthening governance and economic management; (xiii) expediting the implementation of policy, legal and institutional reforms; and (xiv) strengthening monitoring and evaluation systems.

6. Economic recovery is already underway, although somewhat weakened by the recent third wave of COVID-19 infections. Following the initial hit from the pandemic, which saw GDP contracting by 5.5 percent y-o-y in 2020Q2, the economy has staged a comeback. GDP growth moderated to -1.1 percent in 2020Q3 and is expected to have moved back into positive territory in 2020Q4. However, the expected further rebound in the early first half of 2021 is likely to have been weaker than previously forecasted due to the third wave of COVID-19 infections over the Spring and the re-introduction of containment measures. Although the latter have since been lifted in early-May, certain segments of the economy—such as hotels and restaurants—experienced a delay in their expected recovery timeline.

7. Public finances have been significantly stretched. Revenue collection fell as the crisis hit, reflecting both the slowdown in activity and the impact of tax incentives introduced in early 2020 to cushion Kenyans from the impact of the pandemic. At the same time, spending needs grew exponentially with the pandemic, including KSh40 billion (0.4 percent of GDP) in COVID-19-related needs in FY2019/20, KSh58 billion (0.5 percent of GDP) for the financing of our ESP in FY2020/21, and contingent liabilities from struggling SOEs. This led to an unavoidable rise in the FY2020/21 budget deficit and a temporary pause in our fiscal consolidation plan.

8. The burden on public finances was partially mitigated, thanks to a recalibration of spending and the adoption of new revenue-enhancing measures to support a robust response to the crisis. Given the limited fiscal space, MDAs' recurrent budgets were heavily scrutinized for savings and non-COVID-19 spending was scaled back, leading to savings of about 0.6 percent of

GDP in FY2019/20 to enable adequate spending on the COVID-19 response. Government projects were also reprioritized towards those with the most potential for immediate impact and in line with "Big Four" priorities. As the economy started to recover, the bulk of the tax cuts were reversed in January 2021, while ensuring that the most vulnerable remain shielded (individuals earning less than KSh24,000 per month). Additional revenue-enhancing measures were taken as part of the Tax Law Amendment Act (2020) and Finance Act (2020) to meet the pressing social and economic needs of the population, eliminate costly exemptions, and improve the efficiency of the tax system, for a total (full-year) yield of roughly 1 percent of GDP.

9. The implementation of the FY2020/21 budget was affected in part by the fallout from the third COVID-19 wave. Revenues at end-March 2021 fell short of expectations at the time of program approval by KSh6.5 billion, reflecting the impact on activity of the third COVID-19 wave. Notwithstanding this, the end-March deficit overperformed program expectations, on less rapid spending execution than program projections.

10. Inflation has remained under control within our target range. Headline inflation has remained within a range of 4.2 and 5.9 percent over the last twelve months, as muted demand pressures and solid agriculture output dominated any potential pressures from supply-chain disruptions due to COVID-19. The end-May headline inflation rate stood at 5.9 percent, close to the mid-point of the CBK's target range. Non-food/non-fuel inflation has remained anchored under 3 percent.

11. The external sector proved resilient. The current account deficit narrowed to 4.8 percent of GDP in 2020 from 5.8 percent of GDP in 2019 notwithstanding the COVID-19 shock, supported by buoyant remittances, strong horticulture and tea exports, and lower imports. These trends have carried over so far into 2021, with goods exports growing 1.2 percent in the 12 months to February 2021 relative to the same period in 2020, on the back of continued strong demand for Kenyan tea and horticulture products in international markets. Remittance inflows have remained strong and continue to provide a stable source of foreign exchange. In 2020, the remittances totaled USD3,094 million, and at USD299.3 million in April 2021 were 43.7 percent higher than in April 2020. Imports of goods declined by 11.8 percent in the 12 months to February 2021 compared to the same period in 2020, mainly reflecting the relatively low international oil prices. The Shilling acted as a shock absorber in 2020, declining by 8 percent against the US dollar over the course of the year, in line with our flexible exchange rate regime. IMF support, both under the RCF for USD739 million and the EFF/ECF initial disbursement for USD307 million, helped us in weathering the shock. Foreign exchange reserves of the CBK, which stood at USD7, 628 million (4.69 months of import cover) as at April 30, continue to provide adequate cover and a buffer against short-term external shocks.

12. The financial sector remains strong and resilient, despite significant pressures on borrowers' balance sheets. Banks overall entered the crisis with strong liquidity and capital buffers, thanks to earlier reforms in prudential regulations that have helped them build resilience to absorb the shock. Recognizing the need for an early and proactive response, the CBK acted in March 2020 to support the economy and offset the contractionary impact of the pandemic by easing monetary conditions and providing liquidity to ensure the continued effective functioning of local money markets. The Central Bank Rate (CBR) was reduced by 125 bps, from 8.25 percent to 7.25 percent in March 2020 and further to 7.0 percent in April 2020 and the Cash Reserve Ratio was reduced by 100 bps, while the maximum tenor on liquidity-injecting reverse repo instruments was increased from 28 to 90 days. These steps have secured the good functioning of Kenya's domestic markets while the health of the financial sector has been preserved. The capital adequacy ratio and liquidity ratio have remained well above statutory standards at 18.8 percent and 56.3 percent, respectively, at end-March 2021. The share of Non-Performing Loans (NPLs) in gross loans has risen to 14.6 percent in March 2021 from 14.1 percent in December 2020, reflecting the subdued business environment. Banks continue to make the required provisions for NPLs.

13. We have taken steps to expand and accelerate our COVID-19 vaccination campaign, with a scaled-up target of 14.5 million people by July 2022. Kenya launched its COVID-19 vaccination campaign on March 5, 2021, following the reception of the first batch (1.02 million doses) of AstraZeneca/Oxford vaccines under the COVAX facility. Vaccination is currently ongoing in all 47 counties, with more than 860,000 people already vaccinated (about 1.6 percent of the population) as of end-April 2021. To bring the COVID-19 crisis to a close as soon as possible, we have taken steps to significantly ramp up our vaccination campaign targeting 14.5 million by end July 2022. To this end, and to overcome current availability challenges, the list of vaccine candidates has been expanded to include the Johnson & Johnson and Pfizer vaccines. In addition to the COVAX facility, which is expected to procure doses for 20 percent of the population, the government is in discussions with the African Union and Johnson & Johnson to procure the necessary doses to vaccinate the rest of the population. We are actively discussing options for both procurement and financing from development partners.

II. MACROECONOMIC OUTLOOK

14. Our baseline outlook is for a gradual rebound in economic activity, fueled by an accelerated vaccination campaign. We expect growth to rebound to 6.3 percent in 2021, driven partly by strong base effects, and settle at about 6 percent over the medium term, with a slightly increasing trend as the program anchors confidence and boosts investment. Inflation is projected to remain near the mid-point of the CBK target range in 2021 and through the medium term, as monetary policy continues to anchor price expectations. The current account deficit is projected to widen modestly, in line with recovering oil prices and increased capital imports.

15. However, the environment continues to be subject to extremely elevated uncertainties. Another flare-up in COVID-19, in Kenya or its trading partners, could lead to renewed disruptions to trade and tourism and require broader reinstatement of containment measures. A deterioration in global sentiment toward emerging markets could disrupt international capital flows and pressure Kenya's external position. Delays in fiscal consolidation and structural reforms could raise financing pressures and reduce medium-term growth. Upside risks include a faster-than projected rebound in economic activity and government revenue.

III. PROGRAM PERFORMANCE AND POLICIES

A. Program Objectives

16. Our primary policy objective is to enable a strong post-COVID-19 recovery with robust and inclusive growth. Our economic policy plans—outlined in the ERS and supported by our EFF/ECF arrangements with the IMF—place a special focus on (i) promoting good macroeconomic management through prudent debt policies and reforms to improve the efficiency of public spending and (ii) fostering good governance in the management of public resources. Our key policy priorities include in particular:

- ***COVID-19 response.*** Ensure provision of required health services, address urgent needs of vulnerable groups, and support economic activity.
- ***Fiscal policy.*** Undertake a growth-friendly fiscal consolidation to preserve debt sustainability by bolstering revenue primarily through broadening of the tax base and curtailing overall spending while prioritizing high-impact social and investment expenditure.
- ***Public financial management.*** Decisively increase the efficiency and transparency of public spending, including from SOEs, to eliminate waste and achieve better value for money.
- ***Governance.*** Enhance institutional oversight arrangements, strengthen preventive frameworks to improve accountability and foster good governance, and move towards overall greater transparency.
- ***Monetary policy.*** Strengthen the monetary policy framework by refining policy operations to keep short-term interest rates stable and close to the policy rate.
- ***Access to affordable finance.*** Transform the banking sector to one that works "*for and with Kenyans*" and is anchored on pillars of customer centricity, risk-based credit pricing, transparency, and ethical banking.
- ***Financial stability.*** Safeguard financial stability by enhancing prudential regulation and supervision and enhancing operational tools in the context of increasing financial sector complexity.
- ***Structural reforms.*** Deepen structural reforms to improve the business environment and boost investment, employment creation, and potential growth.
- ***Statistics.*** Improve data quality in line with international best practices to support economic policymaking, transparency, and accountability.

B. Program Performance

17. All end-March quantitative performance criteria and the continuous performance criterion under the program have been met. The quantitative target on the primary balance of the national government at end-March 2021 has been met by a wide margin, despite the shortfall in revenue collection. The performance targets on the contracting and guaranteeing of external debt, new domestic guarantees granted by the central government, and non-accumulation of external payment arrears have also all been met. This strict adherence to the program deficit and borrowing targets, despite the challenging environment, reflects the government's strong commitment to fiscal responsibility.

18. The program indicative targets on tax revenues, social spending, and the stock of exchequer requests have been missed, all by very small margins.

- **Tax revenues.** The indicative target (floor) on tax revenues at end-March 2021 was missed by a narrow margin (KSh6.5 billion or 0.06 percent of GDP), due to the fallout from the third wave of COVID-19 infections that required the re-introduction of some containment measures and unavoidably affected economic activity and tax receipts. Another driver of this shortfall has been the challenges in the implementation of the Corporate Minimum Alternative Tax (CMT) due to a recent legal challenge. The latter was expected to deliver KSh5 billion in revenues through March 2021. With the partial rebound in revenue collections already observed in April and the lifting of containment measures in early-May, prospects for making up part of the FY20/21 revenue shortfall are somewhat improving, although we still expect some shortfall compared to our full-year revenue targets this fiscal year (see ¶25).
- **Exchequer requests.** The indicative target on the stock of national government exchequer requests outstanding over 90 days has been missed also by a very small margin (KSh4.2 billion or 0.04 percent of GDP). This was due to temporary cash management challenges, generated by the above-mentioned revenue shortfall and temporary delays in the disbursement of some external financing. These temporary cash tensions have since been resolved and we expect to meet our target for June 2021.
- **Priority social spending.** The indicative target on the priority social spending of the government at end-March has been missed by a very small margin (KSh3.5 billion or 0.03 percent of GDP), largely on account of delayed payment of salaries for some teachers due to some labor issues. These matters have now been resolved, the delayed salaries paid and are not expected to recur going forward.

19. Two of the three structural benchmarks to be implemented through end-April have been met.

- **Reporting on pending bills.** We have initiated the compilation of a regular quarterly report on pending bills, covering Ministries, Departments and Agencies (MDAs), Counties, Semi-Autonomous Government Agencies (SAGAs) and State Corporations (SCs) in March 2021. This will support our efforts to prevent the accumulation of government pending bills and improve fiscal transparency.
- **Stocktaking of public investment projects.** To ensure the best value for money in public investments and eliminate waste, we have completed a stocktaking of existing projects and associated commitments in the areas of education, health, and infrastructure, entered the results in the Hyperion system, and identified projects to be rationalized by end-March 2021.

The result of this exercise is currently being reviewed for follow-up actions and should lead to credible savings.

- **Budget submission to Parliament.** The submission to Parliament of a FY2021/22 budget consistent with the programmed deficit target was completed with a slight delay. Due to unexpected IT challenges, some last-minute adjustments to the FY2021/22 budget estimates could not be reflected on the budget submitted to Parliament by the end-April deadline. However, the adjustments were promptly reflected afterwards, and a revised submission was sent to Parliament on May 28th, 2021.

20. Intensive work is underway to advance the two end-May structural benchmarks.

- **Audit of COVID-19-related spending.** To improve transparency and encourage good governance in the use of public resources, audits of all COVID-19-related expenditures in FY2019/20 have been published.
- **Strategy for SOEs.** A strategy for addressing financial pressures in SOEs is being prepared as per the end-May 2021 target date. This involves an in-depth financial assessment of the top 19 financially challenged SOEs and will support a more effective management of the portfolio of state corporations and progressive improvement in the ability to manage risks arising from these institutions (see ¶39). An international aviation consultant has been retained by Kenya Airways in May to undertake this evaluation, with work gearing up in mid-May on Kenya Airways and an end-June timeline for a full-report. Other financial evaluations have been completed.

C. Fiscal Policy

21. Our fiscal policy path aims at balancing the near-term need for a robust COVID-19 response against the imperative of reducing debt vulnerabilities over the medium term. As the COVID-19 pandemic continues to affect households and businesses and puts a drag on economic activity, meeting the health and economic needs of the population remains the immediate priority. Our policies reflect this near-term imperative while recognizing the limited fiscal space. Response efforts have therefore been carefully prioritized to limit further buildups in sovereign debt. As the pandemic recedes, the focus of fiscal policy will shift to reducing the level of deficits and putting the debt on a downward path within the timeframe of the program. This will help lower financing risks and facilitate an expansion of credit to the private sector, supporting growth.

22. Gains in revenue collection are expected to play a major role in our planned fiscal consolidation. Losses in tax revenues were a major contributor of the increase in deficits in recent years, with the tax-to-GDP ratio having dropped from 15.9 to 13.6 percent over 2016/17–2019/20. We intend to recover the lost ground in this area and have already taken significant measures to that effect (see ¶8). Going forward, we will continue these efforts with a combination of revenue administration reforms and carefully designed tax policy measures to ensure an equitable distribution of the adjustment burden and growth-friendly outcomes.

23. We will ensure that priority social programs and development expenditures remain appropriately funded, in line with the program design. An indicative target on the government's priority social spending has been included as part of the program design to ensure that they are shielded from rationalization efforts. This indicative target will cover vaccination and immunization, programs, transfers to vulnerable groups (e.g., children, people with disabilities, the elderly), free primary and secondary education, food programs, and health coverage and insurance. Moreover, we have initiated an ambitious reform agenda to improve the efficiency of public investments (see ¶34) and intend to keep the overall development spending envelope steady at close to 5 percent of GDP.

24. Consistent with the approved FY20/21 Supplemental Budget and program objectives, we expect to contain the deficit of the fiscal balance at 8.8 percent of GDP in FY2020/21. The supplemental budget builds on important revenue enhancing measures (i.e., the reversal of COVID-19 tax cuts and the introduction of a digital and minimum taxes) that took effect in January 2021, while carrying forward efforts to strengthen revenue administration—including by accelerating the resolution of tax disputes and stepping up tax audits—and reducing wasteful expenditures. The recent outbreak of a third COVID-19 wave has, however, complicated the environment in which fiscal policy operates and increased uncertainty around the intended outcomes of the adopted measures, particularly regarding tax revenues. Moreover, on 19th of April, 2021, the High Court sitting in Machakos issued an order stopping the implementation of the law relating to minimum tax until the hearing and determination of the constitutional petition pending before it, which will be heard in mid-June 2021. The Government aggrieved by the decision of the High Court has filed an application to the Court of Appeal seeking an order to stay the High Court order which stopped the implementation of the minimum tax provision under the Income Tax Act. Given the importance of this matter, the Court of Appeal has certified the application as urgent and KRA expects the same to be heard and a ruling delivered around the middle of June 2021. The granting of the order of stay will enable the KRA to continue collecting Minimum Tax as the case goes on at the High Court. Therefore, we anticipate that tax collection will likely fall below the end-June target of KSh1,433 billion (IT) and request that the IT be adjusted downward by KSh12.9 billion. We nevertheless remain firmly committed to achieve the PC on the primary balance. To this end, we have strengthened spending controls, improved expenditures' prioritization, and delayed execution of non-essential projects.

25. The FY21/22 budget carries forward our consolidation efforts by targeting a 1 percentage point reduction in the overall deficit, in line with program conditionality. This reflects the full-year impact of the reversal of the 2020 tax cuts (0.5 percentage points of GDP) and revenue enhancing measures, as well as progress in rationalizing spending and increasing budget controls. The FY21/22 budget also introduces a number of tax measures aimed at simplifying and improving the efficiency of the tax system, while preserving tax collection. The tax policy measures in the Finance Bill, 2021 are expected to have an overall positive impact on revenue estimated at KSh1,292 million. They include base-broadening amendments to the Income Tax and Excises Duty Acts, VAT exemptions on (COVID-19-related) health equipment, and changes to tax procedures to foster cooperation between KRA and other stakeholders. Further, the Finance Act, 2020 that became effective 1st July 2020, contained some tax policy measures aimed at broadening the VAT base, whose date of implementation was deferred by 12 months to become effective 1st July 2021. The revenue impact from the measures is estimated at KSh5,883 million to the exchequer. In case it may become necessary to activate a contingency in the event of a negative outcome on the CMT or changes in the CMT carrying a notable revenue impact, we have identified a specific list of tax policy measures identified by previous IMF TA from which a compensatory tax policy measure would be implemented. On the spending side, we are committed to pursue our developmental objectives in a fiscally responsible fashion. In particular, the FY21/22 budget aims at protecting priority social spending (KSh409.9 billion) and sustaining COVID-19 vaccination interventions as envisaged under the program, while redirecting available resources to provide targeted support to the vulnerable sectors hit by the pandemic (KSh28 billion) and sustain critical projects (Big Four Initiative). As the government is still engaging with the donor community on the availability of resources to accelerate the COVID-19 vaccine program, the FY21/22 budget currently envisages a modest fiscal cost of vaccine rollout (KSh14.3 billion). We are hopeful to secure agreement with donors on additional resources to accelerate COVID-19 vaccine interventions in the coming months and expect that the flexibility built in program conditionality will serve well Kenya's interest in accelerating our COVID-19 vaccination program without facing constraints from the IMF program.

26. We expect that the SOE sector will require additional support during FY21/22. The recent work on the financial evaluation of key SOEs allowed us to gain visibility on the most pressing needs in this sector and the associated fiscal risks, although the implications for the budget would depend on the actual strategy of reforms chosen in each particular case. Going forward, we are committed to address such needs, building on the findings from the forward-looking financial evaluations of SOEs, and with a view to identify the least cost solutions.

27. Going forward, we intend to carry over the fiscal consolidation momentum into the medium term, with a view of reducing debt vulnerabilities. We will continue revenue mobilization and tight expenditure control, with a view to bring the primary deficit below its debt-stabilizing level in 2023 and into positive territory by FY2023/24. To this end, we are committed to raise the ratio of tax to GDP to create space for growth-enhancing investments and priority social spending. To achieve this objective, we plan to introduce additional tax policy measures for 0.8 percent of GDP in FY2022/23 and 0.9 percent of GDP in FY2023/24 from a menu of options that is consistent with the advice from past IMF technical assistance. At the same time, we will progressively reduce recurrent expenditure as a ratio to GDP, by containing growth in the wage bill and streamlining spending on goods and services, while keeping development spending steady at close to 5 percent of GDP.

28. We seek to move away from our debt ceiling and introduce a credible debt anchor to crystalize our policy intention of reducing debt and maintaining debt sustainability. The current nominal debt ceiling of KSh9 trillion (corresponding to about 81 percent of FY20/21 GDP) does not provide clear guidance on our strategy to reduce debt over the medium term, particularly in a context in which the COVID-19 shock has exacerbated debt vulnerabilities. We have therefore initiated consultations with key stakeholders, including Parliament, to move away from a nominal ceiling and adopt a credible medium-term debt anchor that is tightly linked with the concept of debt sustainability and recognizes Kenya's evolving debt carrying capacity. Our proposal is to introduce a medium-term debt anchor of 55 percent of GDP in PV terms and establish an accountability framework whereby the government is periodically required to explain to Parliament the reasons behind any deviation from the medium-term anchor and identify specific policy measures to ensure achievement of the anchor within a specific timeframe. The credibility of this new framework will anchor expectations for all stakeholders around the government's intended debt reduction path and will benefit from our commitments under the EFF/ECF-supported program with the IMF.

29. Uncertainties associated with the path and timeline towards a resolution of the COVID-19 pandemic entails high risks to our fiscal program and reinforces the need for contingency planning. The uncertainty is particularly pronounced for government revenues, where a deeper-than-expected economic fallout of the crisis could depress tax receipts. To ensure that the program performance criterion for the primary fiscal balance is met, any revenue shortfall relative to program targets in FY2021/22 will be compensated by us taking additional revenue measures or curtailing non-critical spending (focusing on capital expenditure).

D. Fiscal Structural Reforms

30. We will continue to make our tax system more efficient by streamlining exemptions, building on the gains recently made in this area. While the impact of new tax incentives on revenues is immediate, a recent review of the existing incentives suggests that many are not delivering the expected impact (e.g., lower prices for consumers or increased supply of specific products). Moreover, the proliferation of incentives has made our tax system less efficient and difficult to administer, contributing to our recent challenges in revenue collection. As a result, several incentives were eliminated as part the Tax Law Amendment Act (2020) and the Finance Act (2020). However, existing evidence suggests that there is still potential for further streamlining of the tax system. IMF TA has identified potential revenue gains of 3.1 percent of GDP within the VAT system from further removal of exemptions outside agriculture and limiting of zero-rating, 0.8 percent of GDP from more equitable taxation of capital income, and substantial potential for further revenues from excise taxes. We have initiated several workstreams, including with the World Bank, to get a clear evaluation of the size and composition of existing tax expenditures and intend to commence the publication of an annual report on tax expenditures and their budget implications by September 2021 (structural benchmark). The new CMT is another valuable tool to ensure that everyone contributes to the financing of public services and we expect that existing legal challenges to its implementation will be resolved.

31. Revenue administration reforms—aimed at improving compliance and taxpayer services—will continue to play a major role in our fiscal strategy. Our areas of policy focus include enhancing tax and customs debt management, including by leveraging the iTax debt module; strengthening audits; developing and implementing risk-based frameworks to support targeted tax enforcement; expanding the number of taxpayers by identifying new or non-compliant income earners; stepping up post-clearance audit and risk management; enhancing exemptions compliance; improving customs scanning; strengthening monitoring of petroleum trade; and applying enhanced methods for import valuation. We are also enhancing use of import valuation tools and implementing a new integrated customs management system (iCMS) to strengthen integrity, entrench best practices in risk management, and support automated entry processing. Key objectives include:

- **Strengthening audit function by setting up audit teams in the large and medium taxpayer offices**. Audit performance has markedly increased since the re-introduction of Level II audits in October 2020. The number of audit cases has risen from 20 cases over July-September 2020 with a yield of KSh9.2 billion and KSh1.16 billion in collections to 985 cases over October 2020-April 2021, with yields of KSh58 billion and KSh13 billion in collections. By end-July, we will increase by 30 percent the number of Level II audits of firms, using risk-based approaches to select taxpayers with focus on sectors with large gaps in compliance identified by the IMF VAT-Gap analysis (structural benchmark for end-2021).
- **Strengthening post-clearance audit (PCA).** Assigned staffing to PCA has been increased from the current 21 to 33 staff, with the intention of reaching 45 before end-June 2021, depending on resource availability. The key focus of the PCA has been on high risk sectors for large and medium-sized importers.
- **Enhancing valuation methods in customs.** With help from IMF TA, data analysis (i.e., mirror data analysis and tax and customs data matching) has started to be applied to identify and focus enforcement actions on the major valuation gaps by sectors or commodities.
- **Verifying exemptions.** To rein in abuse, a team was set up to monitor and verify VAT exemptions issued over the last 5 years and 14 inspections were carried out so far.
- **Speeding up processing of custom entries.** To increase operational efficiency, we intend to achieve processing of all compliant customs entries within 24 hours, leveraging the Sea Cardo module.
- **Developing and implementing risk-based strategies.** By June 2021, we will develop and implement risk-based compliance strategies for two to three non-compliant sectors (i.e., professionals, high net worth individuals, real estate sector) and the extractive sector.

32. We are working diligently to strengthen our public procurement system. The recent Public Expenditure Review (PER) from the World Bank identifies significant potential for reducing transaction costs in government procurements and securing lower prices from further standardization and use of framework agreements in contracts. To this end, we are in the process of acquiring an e-procurement system that will be integrated to our Integrated Financial Management Information System (IFMIS) to automate application of the Procurement Act and regulations. An agreed implementation strategy and roadmap for e-procurement was approved in September 2020. The competitive procurement of a system developer was temporarily delayed due to budget challenges, but a contractor should be hired by September 2021. A pilot of the new system will be initiated by July 2022 and the full rollout across Government Ministries, Departments, and Agencies (MDAs) planned by July 2023.

33. Controlling the government wage bill can also yield significant savings. To create the much-needed fiscal space for priority social and development spending, we continue our proactive strategy to contain the ratio of the government wage bill to GDP to affect a decline of about 0.5 percentage points by FY2023/24. This will be accomplished through continued restraint in hiring and wage awards (including in the 4-year wage agreement review being undertaken by the Salary and Remuneration Commission (SRC) that will come into effect in FY2021/22) and by improved wage-bill management. We will take the following actions in this area:

- ***By June 2021, Harmonize and rationalize the categories, rates, and rules for allowances.*** The SRC has developed a Draft Allowances and Benefits Policy for the Public Sector. The draft report was put forward for public consultation in March 2021. The SRC is currently consolidating comments and feedback from stakeholders. The final allowances and benefits policy will be issued by December 2021. Public sector institutions shall implement the policy in full within six (6) months of issuance of the policy. The SRC will also be issuing advisories on remuneration and benefits for the remuneration review cycle 2021/22–2024/25 with a focus on gross salaries.
- ***By June 2021, Issue decision to implement across MDAs and Counties a common payroll system linked to IFMIS (structural benchmark).*** Payroll data will be cleaned and audited prior to being transferred to the new common system. A Cabinet memo is being prepared to secure a full collaboration across Ministries.
- ***Upon implementation of the common payroll system across MDAs and counties, we will seek to extend it to some SAGAs (Semi-Autonomous Government Agencies),*** especially those that benefit from recurrent budget transfers from the National Government.

34. Significant efforts are being spent towards improving Public Investment Management (PIM) to deliver value for money in public expenditure. We are developing a framework for project appraisal and selection as well as an automated project management information system. We are addressing obstacles to the flow of funds from development partners, by endeavoring to ensure that: (i) administrative delays are addressed; (ii) budget appropriations are adequate to honor outstanding and planned commitments; and (iii) counterpart funds are made available. A new Director of the PIM Department was appointed to strengthen public sector leadership in this critical area. To further strengthen PIM, we will:

- By July 2021, fully operationalize a new PIM framework, covering all phases of the public investment project cycle, including provisions relating to the identification, economic appraisal, selection, implementation, and monitoring and evaluation of all proposed, active, and completed projects.
- By July 2021, ensure that all new projects are based on clearly defined criteria and pre-determined costing methodologies in line with the PIM regulations and guidelines.

35. Public Financial Management (PFM). Our development agenda is anchored on prudent management of available public resources. As such, we will continue to strengthen expenditure control and improve the efficiency and effectiveness of public spending through necessary public financial management reforms. Focus areas include strengthening budget processes, IFMIS functionality, commitment controls, and cash management. Having strengthened our IFMIS infrastructure, we are adding functionality to the system and enhancing controls. We have introduced a new Cash Management Framework. We will, in accordance with that framework, limit monthly exchequer releases consistent with aggregate in-year cash and debt plans approved by the Cash Management Committee, which will be regularly revised in line with up to date forecasts. We will also be reviewing the number of extra-budgetary units with a view to consolidating these and, where appropriate, bringing them within the perimeter of the budgetary central government. In addition, we will:

- By July 2021, roll out the automated cashflow plans and exchequer automation for MDAs and Counties, such that exchequer requests will be processed online through IFMIS.
- By March 2022, strengthen functionality of IFMIS to cover multi-year commitments, pending bills, procurement and cash plans, and budgeting for allowances.
- By June 2022, develop IFMIS to capture all outstanding commitments when the obligations are entered. This will be accompanied by steps to require that all MDA commitments are immediately entered and only valid once entered on IFMIS with penalty for failure to comply.
- By June 2022, ensure that all MDA budget proposals for FY2022/23 have been prepared using a common costing approach, which by then will have been built into the Hyperion budget preparation system and elaborated in a budget costing manual.
- By June 2022, we will develop a functional system of commitment control where the only valid financial commitments are those that have been entered on IFMIS and where all government issued contracts are accompanied by an IFMIS-linked certificate of validity.

36. Public debt management. As part of strengthening debt management, we are enhancing debt reporting, lengthening maturities, and avoiding bunching of repayments to mitigate refinancing risks. The structure and functions of the Public Debt Management Office (PDMO) are being enhanced to oversee debt management as envisioned in the PFM Law, and we are establishing an Investor Relations Unit to strengthen communication with external stakeholders. To deepen the domestic debt securities market, the National Treasury is working with CBK to implement several reforms. We have strengthened the auction management process by implementing the Treasury Mobile Direct platform for retail sale of government securities, and enabled auction of bids by banks through internet banking. Additionally we are (a) further strengthening market infrastructures and auction management processes for government securities by developing the Central Securities Depository System; (b) maintaining a smooth yield curve for domestic debt securities; (c) supporting the enhancement of market structure and conduct through treasurers and dealers of commercial banks; (d) lengthening the maturity profile of government debt securities; (e) enhancing transparency through publication of auction rules and guidelines; and (f) strengthening the bond benchmark building program. Regarding external debt, we are proactively working to ensure increasing utilization of committed concessional financing.

37. Our participation in the G20 Debt Service Suspension Initiative, including the relief provided for the second half of 2021, will help reduce financing pressures. Looking further ahead, we will:

- By September 2021, submit for Cabinet approval the proposed amendments to the PFM regulations to operationalize the functioning of the Public Debt Management Office as envisioned in the PFM Act.
- By July 2022, issue PFM regulations and a service contract for the Public Debt Management Office to make operational the framework for debt management envisioned in the PFM Act.
- By October 2022, in our regular reporting on public debt, expand the coverage of public debt to include non-guaranteed public sector debts (including arrears) not currently included.

38. Public Private Partnerships (PPPs). Given the limited fiscal space, we are revamping the PPP Unit in the National Treasury to support efficient and sustainable scaling up of our PPP program without undue fiscal risks. This has included appointing a Director-General for the PPP Unit to provide strong leadership and strategic oversight. To ensure that only projects with the highest socio-economic returns are undertaken, we are in the process of creating and institutionalizing a joint PIM-PPP planning framework. This will help streamline the decision process of determining whether projects should be procured through the traditional public sector method or as PPPs. We are also strengthening coordination between PDMO and the PPP Unit for effective control of fiscal exposure, as envisioned in the PPP Act. The implementation of the revised institutional structure has progressed significantly. The new institutional structure was approved, and recruitment is underway. This will allow tapping private sector financing to support projects that will make important contributions to Kenya's key development objectives while effectively managing risks to the Exchequer through a strong project selection process. Other specific actions include:

- By July 2021, fully operationalizing the PPP Project Facilitation Fund through the creation of a budget line for annual funding.

39. Pension reform. To put pensions on a sustainable footing, we are introducing a funded pension scheme for public sector workers, the Public Service Superannuation Scheme (PSSS). We are also increasing efficiency by digitalizing our pension management system, a process we aim to have completed by June 2022. The PSSS commenced at the start of 2021 and will replace the current *pay-as-you-go* system over time. Participants in the PSSS will include all new public sector workers and current workers under the age of 45. PSSS contributions will be paid into a Public Service Fund supervised by the Retirement Benefits Authority. The PSSS will allow portability of pension benefits, facilitating free movement of staff into and out of the public sector.

E. State-Owned Enterprises

40. We have made inroads in assessing, monitoring, and addressing vulnerabilities in the SOE sector, in line with the staged approach we have set out. Financial pressures are still acute in many SOEs and may have been exacerbated by the recent third wave of COVID-19 infections.

These pressures have compounded pre-existing structural weaknesses in the sector, including overlapping mandates, poor financial performance, and weak governance. To remedy this situation, we have taken the following steps:

- A financial evaluation of the 9 SOEs with largest fiscal risk to the FY20/21 budget was completed and an assessment of their urgent fiscal needs in FY20/21, amounting to 0.3 percent of GDP, was included in the FY20/21 supplemental budget. The entities were selected based on scale of the financial and fiscal risks they present. They are Kenya Airways, Kenya Airports Authority, Kenya Railways Corporation, Kenya Power and Lighting Company (KPLC), Kenya Electricity Generating Company PLC, Kenya Ports Authority, and three of the largest universities (Nairobi University, Jomo Kenyatta University of Agriculture and Technology, and Moi University). The analysis, based on IMF-developed tools, covered their spending, revenues, and debt drivers; the impact of the COVID-19 shock on each SOE; factors determining the size of remedial measures; modalities of remedial measures and impact on the fiscal framework. The financial evaluation assessed the most immediate pressures on the 9 SOEs and the scale of potential immediate contingencies to the budget in FY20/21. On the basis of this, the financial support of KSh36.3 billion has been provided via the supplemental budget to shore up the immediate challenges at the most significantly impacted firms (Kenya Airways and KPLC), although significant challenges remain—including due to significant underlying weaknesses in the business model of some SOEs that pre-dated the COVID-19 shock.
- An in-depth financial evaluation of 19 large SOEs, including the 9 SOEs above, is underway and aimed to have been finalized by end-May (structural benchmark); 18 were completed so far. The in-depth evaluation will broadly assess projected cash flow balances of the selected SOEs in the 2021–24 period incorporating projections on future market sales, the liability structure of the companies including contingent liabilities of the state and potential cost-savings from viable restructuring strategies. Even with a conservative approach that carefully considers risks and contingencies, such an assessment is subject to even-greater than normal uncertainty, given the continuing challenges in the business environment in the near term given the COVID-19 shock. The 19 SOEs were selected according to transparent criteria that include on-lent loans, government guarantees, direct transfers, losses over the last few years. The additional 10 SOEs comprised Kenya Broadcasting Corporation, Postal Corporation of Kenya, Athi Water Works Development Agency, Kenyatta University, Kenya National Examinations Council, Kenya Wildlife Service, Kenya Post Office Savings Bank, Kenyatta National Hospital, East African Portland Cement Co. Ltd., and Kenya Pipeline Company Ltd.
- Given the special circumstances and uncertainty facing the global airline industry, Kenya Airways has retained an international aviation expert to assist in defining a set of strategies for its future. Kenya Airways has experienced losses in recent years and faces significant future challenges. Sector-specific expertise will contribute to a better understanding of major trends in the regional and local aviation market, the formulation of a viable business model for Kenya Airways and ensure the consideration of all least cost alternatives for the

Exchequer. While the hiring of the international aviation consultant was delayed to mid-May it is expected that the consultant will by June 2021 develop recommendations to inform the government's course of actions related to the airline's management in the future.

- By end-May 2021, NT formulated a strategy to enhance the institutional capacity of the GIPE to anticipate, monitor, manage and mitigate fiscal risks stemming from SOEs; and to ensure that decisions on budget support to SOEs take into account Kenya's limited fiscal space (structural benchmark). The strategy aims to support more effective management of the portfolio of state corporations and progressive improvement in the ability to manage risks arising from these institutions. It will focus on engagement in budget planning for SOEs; the quantification, monitoring, management and reporting of fiscal risks, including guarantees and contingent liabilities; and effective monitoring of SOEs' budget execution and financial key performance indicators (KPIs). The strategy will deliver an action plan and concrete recommendations with corresponding deadlines for implementing suggested measures, including the transparent reporting and disclosure of information on SOEs' fiscal risks and financial performance, phased over a medium-term horizon. Taken together, these steps will reinforce public accountability for delivering value for money in the government's SOE portfolio.
- As part of the phased approach, we have initiated the preparation of a draft blueprint that will indicate the needed legal reforms and implementation actions to operationalize efficiency in oversight and management of SOEs. This should be completed by July 2021 with IMF support.

41. We will continue to introduce further governance arrangements that enhance management and oversight of SOEs. Interventions in this area will build on the recommendations from the task force on parastatal reforms completed in 2013 and the progress we made in implementing the State Corporation Act of 2012 and the 2015 Code of Good Corporate Governance. More specifically:

- Developing by September 2021 an integrated monitoring and reporting system that will be accessible by relevant oversight entities including among others the line ministries, National Treasury, and SCAC, which will operate both as a database and an early warning system to facilitate proactive rapid response interventions on policy and regulatory compliance targets.
- Enhancing the performance management setting, monitoring and evaluation framework for commercial state corporations, and facilitate the necessary capacity building, development of guidelines, rewards, and sanctions framework.
- Initiating a review of institutional structures across MDAs, SAGAs, and SCs. This review and an action plan to eliminate duplicate functions will be piloted in at least one sector by December 2021. The exercise will subsequently be rolled out in other sectors based on a roadmap agreed by July 2021.

42. We are also taking steps to strengthen risk analysis and the monitoring of the broader public sector. Specifically:

- By end-September 2021, we will start including in the annual Budget Review and Outlook Paper an expanded fiscal risk analysis that quantifies contingent liabilities stemming from high-risk SOEs and initiates coverage of PPPs (structural benchmark). This will help ensure that a forward-looking view on risks and potential contingencies from the SOE sector as well as the evolving PPP sector will be an integral part of Kenya's budget making process. The analysis will include specific coverage of high-risk SOEs and any other entities that are incurring financial difficulties or rely on direct or indirect government support. The analysis will also report on the expected costs of guarantees and on risk exposure related to completed projects and planned PPPs nearing completion. Risk mitigation measures should also be discussed.
- By September 2021, apply strengthened budgeting and reporting templates for SAGAs and SCs using an automated Management Information System.

F. Monetary Policy

43. Policy objectives. Our primary policy objectives are to: (i) maintain headline inflation within our target range (5±2.5 percent); (ii) maintain a flexible exchange rate regime, with market interventions only in response to excess exchange rate volatility; and (iii) further improve the monetary policy framework. A monetary policy consultation clause (MPCC) with a 5 percent +/- 2.5 ppt band will help monitor inflation performance, providing for a consultation with the Executive Board to be triggered if inflation falls outside the band (TMU, ¶23).

44. We will continue to push ahead with our monetary policy reform agenda. The removal of interest rate caps, which had hindered monetary policy effectiveness, is a welcome development and opens the way for further progress in strengthening our monetary policy framework. To this end, we will publish by June 2021 a white paper outlining reforms to strengthen the monetary policy framework (structural benchmark). As conditions permit with the normalization following the COVID-19 shock, the reforms will focus on:

i). Refining our macroeconomic modeling and forecasting frameworks.

ii). Improving the operations of financial markets, including fully developing by December 2021 a Centralized Security Depository that will improve monetary policy transmission and promote efficiency and transparency in the government domestic debt market. In developing financial markets, CBK has rolled-out Treasury Mobile Direct (mobile platform for government securities) and Internet Banking, installed the Enterprise Data Warehouse (EDW) for near-real time data capture and analysis, and is currently assisting ACI-Kenya and the Treasurers forum with the development of a framework designed to further strengthen conduct in the financial markets.

iii). Improving communication of monetary policy decisions to make them more effective.

G. Financial Sector

45. Policy objectives. Safeguarding financial stability and expanding access to affordable finance remain our key priorities as the financial sector supports the economic recovery through the COVID-19 pandemic and in the post-COVID-19 recovery. We will continue to take steps to improve prudential regulation and supervision, with a view to addressing the increased sophistication of the financial sector. Our objective is to promote sustainability and resilience of the Kenyan financial sector along four pillars: customer centricity; risk-based credit pricing; transparency; and ethical practices. This will enhance the financial sector's capacity to provide affordable financial services to Kenyans.

46. The banking sector remains stable and resilient. Core capital and total capital adequacy ratios as at end-March 2021 were at 16.5 and 18.8 percent respectively, above the statutory minimums of 10.5 and 14.5 percent. The liquidity ratio at end-March 2021 stood at 56.3 percent well above the statutory minimum of 20 percent. The ratio of gross Non-Performing Loans (NPLs) to Gross Loans has risen to 14.6 percent in March 2021 from 14.1 percent in December 2020, reflecting the subdued business environment.[1] However, adjusting for provisions already made, the share of NPLs stands at a manageable 5.7 percent at end-March 2021. Moreover, our "what-if" analyses—which aim at assessing the underlying risks under different scenarios—suggest that the ratio of gross NPLs to gross loans would likely peak, at most, at 16 percent under a scenario of adverse developments in economic activity. Finally, the outstanding credit risk from restructured loans during the pandemic seems to be broadly contained.

47. We have put in place a series of financial sector measures to mitigate the adverse impact of COVID-19. In coordination with other Government interventions, the Central Bank of Kenya (CBK) has implemented a range of measures, over the course of the crisis, aimed at cushioning the banking sector and the wider economy from the adverse impact of the pandemic. The interventions mainly focused on the following areas:

- **Enhancing the use of digital platforms:** In consultation with authorized Payment Service Providers (PSPs) and commercial banks, limits on mobile money transactions were enhanced and charges on low value transactions (of up to KSh1,000) eliminated. There was, accordingly, a notable increase in both transaction volumes and values of low-value transactions and transfers between bank and mobile e-wallets. Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) checks also have been strengthened to guard against abuses. The charges on mobile money transactions fees on small transactions of less than KSh1000 were reinstated in December 2020 but fees are still waived for fund transfer from bank accounts to mobile wallets.
- **Loan restructuring:** Banks committed to discuss the restructuring of loans with customers whose loans were performing as at March 2, 2020 but were adversely impacted by the pandemic. Flexibility to engage in these discussions was maintained until March 2021, and

[1] Increases in NPLs were noted in the real estate, agriculture, personal and household, and manufacturing sectors, mainly due to the COVID-19-related slowdown.

total loans restructured in this period cumulatively amounted to KSh1.7 trillion, equivalent to 57 percent of total banking sector gross loans. Of these restructured loans, the large majority resumed normal payments, with only KSh419.9 billion (about 24.5 percent) still outstanding at end-March, and over 95 percent of that amount remaining up to date according to terms of the restructured contracts. Restructured loans that have fallen in arrears therefore account for less than 1 percent of total banking sector gross loans, suggesting that the borrowers received valuable support to navigate the liquidity shock from the pandemic and the underlying credit risk is contained. We continue to closely monitor the performance of the restructured loans and their impact on banks' earnings and capital buffers.

- **Strengthening the Credit Referencing Mechanism:** On April 8, 2020, the Credit Reference Bureau (CRB) Regulations became effective refreshing the framework that had been in place since 2013. The revised Regulations in addition to supporting the risk-based pricing pillar of the banking sector charter provided for temporary suspension of listing of negative credit information in exceptional circumstances. Accordingly, and in light of the adverse impact of COVID-19, on April 14, CBK issued Banking Circular Number 7 and Number 8 of 2020, which temporarily suspended the sharing of negative credit information on credit facilities that became non-performing for six months to September 30, 2020. This measure expired on September 30.
- **Business Continuity Planning:** On March 27, 2020, CBK issued guidance to the banking sector on pandemic planning and business continuity. The guidance, which was aligned to protocols from the Ministry of Health, is aimed at monitoring the incidence of the pandemic in the sector and guiding responses thereto. In the pandemic period, over 90 percent of the bank branch network across the country has remained open, including in areas that were under COVID-19 movement restrictions.
- **Ensuring Capital Adequacy during and beyond COVID-19 Pandemic:** CBK has since 2016 adopted the Internal Capital Adequacy Assessment Program (ICAAP) in ensuring that banks hold adequate capital aligned to their risk profile and market niche. ICAAPs are approved by banks' boards and are a critical component of the ongoing Supervisory Review and Evaluation Process (SREP) carried out by CBK on each bank. SREP seeks to assess the risk profile of each bank and ensure that it has adequate capital and liquidity buffers. On August 14, CBK issued a Circular requiring banks and mortgage finance companies to re-submit by October 31, 2020 their ICAAP documents for 2020 accounting for pandemic-related developments and ensuring adequacy of capital and liquidity buffers. These updated ICAAP submissions were reviewed by the CBK and served as a basis for the review of profit distribution decisions including dividends by the banks. All banks publicly disclosed their audited 2020 financial statements, including their capital adequacy ratios in March 2021, which showed the banking sector is well capitalized and there is no imminent systemic risk in the sector. We have published the individual end-year bank capital adequacy ratios and the overall sector capital adequacy status in accordance with existing processes in the annual 2020 Bank Supervision Report by May 2021.

48. A new credit guarantee scheme (CGS) was also established to expand access to affordable credit to MSMEs and support their recovery from the adverse impact of COVID-19. The design of the CGS, which covers up to 50 percent of the risk on a Pari-Passu basis with participating banks, is intended to facilitate better financing terms to Kenyan MSMEs and incentivize the extension of the credit that will be essential in reactivating the economy during heightened uncertainty due to the pandemic. The maximum loan per borrower is KSh20 million.

49. Going forward, we intend to maintain the reform momentum towards realizing our vision outlined in the CBK's Banking Sector Charter. As it addresses current challenges from COVID-19, the banking sector remains on track towards realizing the vision outlined in CBK's Banking Sector Charter of a banking sector that works for and with Kenyans. Our reform agenda remains on track including:

- **Banking Sector Resilience.** The need to build resilience and exploit emerging opportunities has led to increased consolidations and combinations among several players. During the pandemic period, three transactions have been completed, the acquisition of Mayfair Bank by CIB of Egypt, the acquisition of Transnational Bank by Access Bank of Nigeria, and the acquisition of Jamii Bora Bank by Co-operative Bank of Kenya Limited. Additionally, Kenyan banks have continued to expand regionally through acquisitions, including in the Democratic Republic of Congo, Rwanda and Tanzania. CBK will continue with the focus of building a resilient banking sector with strong business models and governance frameworks that will support Kenya's post-pandemic recovery. In April 2021, CBK appointed the Kenya Deposit Insurance Corporation (KDIC) as the Liquidator of Chase Bank Limited which had been in receivership since April 2016. The CBK also in May 2021 appointed KDIC as Liquidator of Charterhouse Bank Limited, a small bank which had previously been operating under statutory management since June 2006.
- **Moving towards real-time supervision.** We are implementing a centralized Electronic Data Warehouse (EDW) that will merge all the different information sets provided by banks to CBK. Through Application Program Interfaces (APIs), we shall connect the EDW directly to banks to enable us to access supervisory data on a near real-time basis. This will significantly enhance the proactiveness of our offsite surveillance systems and provide a laser focus for our onsite inspections of banks. We are working with selected pilot banks as we move towards integrating the EDW with banks.
- **Review of the Microfinance Act.** To accommodate considerable changes that have been experienced in the Microfinance industry over the years, CBK has reviewed the existing regulatory and supervisory framework for microfinance banks and forwarded the finalized draft of Microfinance Bill to the State Law Office for consideration in December 2019. In December 2020, the State Law Office finalized legislative drafting of the Microfinance Bill. In March 2021, the Bill was forwarded to the National Treasury for approval by Cabinet and subsequent tabling for consideration by the National Assembly.
- **Licensing of Kenya Mortgage Refinance Company.** On September 18, 2020, CBK licensed the Kenya Mortgage Refinance Company PLC (KMRC) as the first mortgage refinance

company in Kenya. The license was granted pursuant to the CBK (Mortgage Refinance Companies) Regulations, 2019. KMRC's principal objective is to provide long term finance to primary mortgage lenders (commercial banks, mortgage finance companies, microfinance banks and Savings and Credit Co-operatives) to increase the availability and affordability of mortgage loans to the public. On December 17, 2020 KMRC approved a disbursement of KSh2.75 billion to four participating mortgage lenders under the World Bank line of credit. In addition, a mortgage portfolio of Ksh567million from three other mortgage lenders is under review for refinancing. KMRC is at an advanced stage of issuing a corporate bond to provide a sustainable source of funding for mortgage refinancing to complement the existing credit lines. A transaction advisory team has been hired to guide the process of the bond issuance scheduled in Q3 2021.

- **The Central Bank of Kenya (Amendment) Bill, 2020 on Digital Lenders.** The Central Bank of Kenya (Amendment) Bill, 2020 (the Bill) was published on June 19 and republished in April 2021 to incorporate public consultation input. The principal objective of the Bill is to empower CBK to supervise and regulate digital lenders to ensure a fair and non-discriminatory marketplace for access to credit. The Bill is under consideration by the National Assembly.
- **Strengthening the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Framework.** We have made significant progress on various fronts in improving the AML/CFT legal framework but more importantly in its implementation through various initiatives. From a broader perspective, we have strengthened cash transaction monitoring and reporting by banks, enhanced our offsite and onsite surveillance through targeted AML/CFT onsite inspections. We have enforced administrative sanctions and penalties arising from AML/CFT violations identified during our inspections. This includes penalties levied on banks, payment service providers, money remittance providers and other financial institutions. Additionally, we conducted a successful demonetization exercise in 2019 withdrawing the old generation Kenya Shilling 1,000 note. The demonetization was informed by the twin concerns of large banknotes, particularly the older 1,000-shilling series being used for illicit financial flows in Kenya and in the region. The other concern related to emergence of some counterfeits posing a threat to the credibility of the Kenyan currency. In crafting the demonetization strategy, we reviewed the experiences of other countries and regions that have carried out similar exercises, including Australia, European Union, Pakistan, United Kingdom and most recently India. Critical to the eventual success of the exercise were strong AML/CFT filters in banks that ensured that illicit funds were screened out of the financial sector. AML/CFT monitoring was scaled up by the Central Bank of Kenya with 15 targeted inspections conducted during this period on financial institutions. Financial institutions also scaled up their AML/CFT screening reporting over 3,000 Suspicious Transaction Reports (STRs) for further investigation.
- **National Risk Assessment.** We have completed the National Risk Assessment (NRA) process and formulated the National AML/CFT Strategy and Action Plan based on the findings of the NRA. The draft NRA report and Action Plan are currently undergoing validation review by relevant stakeholders and will be made public in June 2021 once

approved by the Cabinet. Implementation of the Action Plan will facilitate our preparation for the upcoming Mutual Evaluation exercise by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) expected to take place in the second half of 2021.

H. Governance

50. We remain committed to transparency in government procurements and are taking steps to improve our framework for public procurements. Significant progress was made with the implementation of the Procurement Act, which provides a legal framework for electronic procurement by all public entities. Public entities are now required to publish all procurement related information in line with open contracting standards and Executive Order No 2 of 2018. Ongoing initiatives on public procurements under the program include:

- **Publication of information on public tenders awarded including beneficial ownership.** We are enhancing the Public Procurement Information Portal to ensure that the portal publicizes comprehensive information on all firms that win procurement contracts, including the names of their beneficial owners, by end-June 2021 (structural benchmark). Consistent with the structural benchmark, we are taking steps to ensure that bidders are subject to dissuasive sanctions for non-compliance, including by developing support mechanisms through issuance of a debarment procedural manual and a secretariat function. We have initiated sanction processes for non-compliant entities with two cases currently under review and publishing a report on the status of procuring entities' compliance with the Executive Order.
- **New State Procurement Portal.** We have completed the development phase of the State Procurement Portal and conducted a two-week pilot with a sample of 10 procuring entities. The full rollout of the new Portal is underway in early-June 2021.
- **Cooperation between the Competition Authority of Kenya (CAK) and Public Procurement Regulatory Authority (PPRA).** A joint MOU has been signed between the CAK and PPRA to ensure that any irregularities encountered in the procurement process can be met with appropriate penalties. The MOU has been cleared by the Attorney General and the related completion rules have been gazetted.

51. We are committed to strengthening the implementation of the anti-corruption framework. Kenya has a comprehensive anti-corruption legal framework including the Public Officer and Ethics Act (2003), Anti-Corruption and Economic Crimes Act (2003), the Leadership and Integrity Act (2012), Ethics and Anti-Corruption Commission Act (2012), the Access to Information Law (from 2016), and Law on Bribery (2016). To ensure the effective prosecution and sanction of corruption and economic crimes as required under the Anti-Corruption and Economic Crimes Act, the Multi Agency Team on Corruption (MAT) responsible for the coordination of enforcement against corruption chaired by the Attorney General with the heads of law enforcement and prosecutorial agencies as members (Director of Public Prosecution (DPP), Director Criminal Investigations (DCI), Economic Acts and Corruption Commission (EACC), Asset Recovery Agency (ARA), National Intelligence Service (NIS), Central Bank of Kenya (CBK), Kenya Revenue Authority (KRA) & Financial Reporting Centre (FRC)) have facilitated the processing of corruption investigations and prosecutions.

52. Going forward, we will pursue further needed reforms to strengthen the implementation of the anti-corruption agenda to effectively prevent and enforce against corruption offenses.

53. Access to Information is a guaranteed right of every citizen of Kenya under Article 35 of the Constitution and effective implementation of the Access to Information Act is a key priority to enhance transparency. We have drafted the implementing Regulations associated with the Act and public consultations are beginning. This will set the ground for adopting and publishing the regulations and initiating their implementation by September 2021. Further, by March 2022, standards for digitization and automation of records will be developed to ensure that existing and proposed systems have the capacity to comply with minimum access to information requirements.

54. We are also reviewing our legal framework of asset declarations and conflict of interest rules for senior public officials to bring it in line with international best practices. This follows completion of the United Nations Convention Against Corruption (UNCAC) peer review process (both cycles 1 and 2). The planned enhancements will, among others, (i) consolidate the wealth declarations and interest declarations of public officials into one uniform disclosure regime, (ii) rationalize the responsibility of analyzing and verifying the disclosures and imposing adequate sanctions for false declarations or failure to declare in a single agency, and (iii) enhance the role, responsibilities and capability of enforcement agencies to investigate, prosecute and sanction perpetrators of illicit enrichment and other corruption offenses. The review of the Conflict of Interest Bill together with the provisions on financial and interest disclosures is currently taking place and will be finalized by the inter-agency committee with anticipated submission to Cabinet for approval by September 2021.

55. We will continue to collect and publish the status of all corruption cases in the Judiciary website in a timely manner. This information will include filed cases, resolved cases, pending cases, case backlog, case clearance rate, average time to disposition, and reasons for adjournments of cases for the High Court Anti-Corruption Division and Anti-Corruption Magistrates' Court at Milimani.

56. We will continue to collect data on commercial, land and Civil cases and consistently publish caseload statistics to inform court users and consequently enhance market certainty. As such, the Judiciary will publish data on filed cases, resolved cases, pending cases, case backlog, case clearance rate, average time to disposition, and reasons for adjournments for the Milimani Magistrates' Commercial Court and Milimani High Commercial Division, Milimani Civil Division and Environment and Land Courts in the Judiciary website.

57. We will continue to work diligently on improving our AML/CFT framework to support anti-corruption efforts. We have completed the National Risk Assessment (NRA) process. The final draft of the NRA report, and the National AML/CFT Strategy and Action Plan formulated based on the findings of the NRA, are currently under validation review by the respective stakeholders. Our timeline to submit the NRA report and Action Plan to the Cabinet for approval and to make public these two reports is June 2021. To support anti-corruption initiatives, the Financial Reporting Centre will continue to strengthen the use of financial intelligence by enhancing its reporting tools to enable the effective and timeous lodging of Suspicious Transaction reports, Cash Transaction reports and Monetary Instrument declarations. The Centre in March 2021 deployed goAML to spearhead timely reporting and engagement with the reporting institutions and Law Enforcement Agencies (LEAs). This new system is expected to result into timely and quality reporting of suspicious transactions relating to corruption. To enable the effective use of financial intelligence, the Centre will continue to engage reporting institutions through provision of trainings aimed at improving the quality of suspicious transaction reporting. The programme of engagement is expected to cover all banks by end of 2021. To further the use of AML/CFT measures to support anti-corruption efforts, the Centre has trained its Analysts on the public procurement process including procurement fraud and its detection. Arising therefrom, the Centre developed a checklist/red flags on procurement related matters and this has been shared with reporting institutions for their use in detecting illicit transactions relating to procurement. To enhance sharing relevant financial intelligence with LEAs, the Centre will continue to increase its engagement with the LEAs through the creation of operational working groups to further enhance LEAs' use of financial intelligence to support investigations of corruption cases. The Centre will continue to analyze on a priority basis, all STRs and SARs relating to public procurement with a view to ensuring that LEAs have timely financial intelligence to support their work. In order to obtain feedback on the usefulness of FRC's disseminations, and as part of its continued outreach to LEAs, the Centre has in 2021 so far held one operational meeting (with LEAs) and is resuming the engagements which had been temporarily put on hold due to the COVID-19 pandemic. As a member of Multi Agency Team (MAT), the Centre will continue its partnership in MAT to detect and deter corruption activities in the country by, amongst others, prioritizing the fight against corruption as part of the MAT agenda; sharing financial intelligence as necessary within MAT to support MAT cases and participating in the MAT operation/cluster teams. Kenya is scheduled to undergo its 2nd Round of Mutual Evaluation (ME) conducted by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) with the desk review expected to commence in June 2021 and the on-site visit taking place in November 2021. ESAAMLG in consultation with Kenyan authorities is in the process of firming up the dates for the ME. The FRC as Coordinator of the ME exercise is undertaking the requisite preparations for the ME exercise. The operationalization of the Beneficial Ownership e-Registry for all companies is currently underway. The deadline for companies to submit beneficial ownership information has been extended from January 2021 to July 2021, failing which the default company will be subject to a fine upon conviction. To encourage compliance to the submission requirement, we have published the Beneficial Ownership e-Register Manual, which provides step-by-step guidance to users, and we organized outreach events to increase awareness.

I. Data Quality

58. Policy objectives. We view the production and dissemination of high-quality economic statistics as the foundation for good policy through evidence-based decision making. To enhance our macroeconomic data, we will continue to improve the availability, quality, coverage, and timeliness of our statistics.

59. Data coverage, quality, and timeliness. We have enhanced economic statistics with a range of new statistical surveys, including Integrated Survey of Services, Study of Trade Margins, Study of Underground Economy, Study of Informal Transportation, Medium, Small and Micro Enterprises Survey, and Survey of Non-Profit Institutions. To improve macroeconomic data dissemination practices, we joined the Enhanced General Data Dissemination System (e-GDDS) initiative in December 2018. We released the Foreign Investment Survey in April 2019 and submitted international investment position (IIP) data series from 2008 to 2018 to the Fund in July 2020, which are available on the IMF website. We are also working toward improving the quality of our national accounts and government finance statistics and are receiving IMF technical assistance in these areas. The latter is expected to lead to the reporting of (i) general government fiscal outturns on a quarterly basis by June 2022; (ii) annual fiscal data of the public corporations sector (including financial and non-financial corporations) by December 2021; and (iii) migration of the fiscal framework to GFSM 2014 based concepts by December 2021. All these actions taken together will improve transparency and ensure that all stakeholders have an easy and reliable access to information on the state of the economy and public finances.

J. Program Monitoring

60. The program will continue to be monitored based on periodic performance criteria, continuous performance criteria, Monetary Policy Consultation Clause, and indicative targets as set out in Table 1. Structural benchmarks set out in Table 2 will be used for monitoring progress on structural reforms. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons. The second and third reviews of the program will take place on or after November 7, 2021 and May 7, 2022, respectively.

Table 1. Kenya: Quantitative Performance Criteria and Indicative Targets, March 2021 – June 2022

(in billions of Kenyan shillings, unless otherwise indicated)

	2021								2022	
	End March				End June		End Dec		End June	
	EBS/21/29	Adjusted	Outturn	Status	EBS/21/29	Revised[9]	EBS/21/29	Revised[9]	EBS/21/29	Revised[9]
Quantitative performance criteria										
Fiscal targets										
Primary budget balance of the national government (- = deficit; floor)[1]	-405.9	-407.8	-134.8	met	-507.8		-202.9		-369.4	
Tax revenue (floor)[1, 2]	-				-		783.2		1,667.3	
Monetary targets										
Stock of central bank net international reserves (floor, in millions of US$)[3]	5,901	5,862	6,129	met	7,547	7,451	6,536	6,634	6,203	6,151
Public debt targets										
Contracting and guaranteeing of new external non-concessional borrowing (ceiling, millions of US dollars)[4]	3,407	3,407	0	met	3,407	3,407	6,407	6,407	7,612	7,612
o/w: Debt for a debt management purpose[4,5]	2,000	2,000	0	met	2,000	2,000	5,000	5,000	5,000	5,000
o/w: Debt for projects[4,6]	1,407	1,407	0	met	1,407	1,407	1,407	1,407	2,612	2,612
Contracting and guaranteeing of new external concessional borrowing (ceiling, millions of US dollars)[4]	2,000	2,000	0	met	3,100	3,100	4,800	4,800	4,800	4,800
Public and publicly-guaranteed external payment arrears (ceiling)[7]	0	0	0	met	0	0	0	0	0	0
New domestic guarantees granted by the central government (ceiling)[1]	5	5	0	met	5	5	5	5	5	5
Indicative targets										
Tax revenue (floor)[1,2]	996.2		989.7	not met	1,433.3	1,420.5	-		-	
Priority social expenditures of the national government (floor)[1]	293		290	not met	391		205		397	
Change in the stock of national government exchequer requests outstanding for 90 days or more (ceiling)[1]	0		4.2	not met	0		0		0	
Monetary policy consultation clause				met						
Upper band (annual, percentage points)	7.5				7.5		7.5		7.5	
Center inflation target (annual, percentage points)[8]	5.0		5.9		5.0		5.0		5.0	
Lower band (annual, percentage points)	2.5				2.5		2.5		2.5	

1 Targets are cumulative flows from July 1, 2020 to June 30, 2021 and from July 1, 2021 to June 30, 2022; except for national government exchequer requests outstanding for 90 days or more that are cumulative from July 1, 2020.

2 For the purpose of the program, the floor excludes taxes related to "Ministerial Appropriation in Aid" (i.e., RML, RDL, PDL,), "Taxes on International Trade and Transactions (IDF fee)", "Capital gains", and "other taxes on goods and services".

3 For program monitoring, the daily average for the month when testing dates are due. Excludes encumbered reserves.

4 Cumulative from Program approval. Non-concessional borrowing exceptions.

5 In line with the Policy on Debt Limits, debt management operations that improve the overall public debt profile.

6 In line with the Policy on Debt Limits, financing for projects integral to the authorities' development program (includes Eurobond borrowing). The list of projects is specified in Annex I of the TMU.

7 Continuous.

8 Compliance will be evaluated based on the 12-month annual inflation average of the latest three months.

9 Revised targets reflect proposal for modification.

Table 2. Kenya: Proposed Structural Benchmarks

Measure	Target Date	Status	Macro-Criticality
State-Owned Enterprises (SOEs) Restructuring and Governance			
Prepare a strategy for addressing financial pressures in the SOE sector including an in-depth and forward-looking financial evaluation of the top 15–20 SOEs representing the largest financial and fiscal risks, a framework for deciding on interventions, and reforms to rationalize the SOE sector.	End-May 2021	Not met.	Reduce fiscal risks related to SOEs.
Include in the annual Budget Review and Outlook paper an expanded fiscal risk analysis that quantifies contingent liabilities stemming from high-risk SOEs and initiate coverage of PPPs.	End-Sep 2021		Improve transparency and accessibility of information on the broader public sector to improve fiscal policy planning and reduce fiscal risks.
Fiscal Transparency			
Initiate regular quarterly reporting on pending bills, covering Ministries, Departments and Agencies (MDAs), Counties, Semi-Autonomous Government Agencies (SAGAs) and State Corporations (SCs).	End-Mar. 2021	Met.	Enhance fiscal transparency in a critical area.
Publish the results of an audit of all COVID-19-related expenditures in FY2019/20.	End-May 2021	Not met. Implemented with delay.	Safeguard public resource and enhance transparency and accountability.
Ensure that comprehensive information on public tenders awarded, including beneficial ownership information of the awarded entities, are publicly available on the government procurement information portal, and that bidders are subject to dissuasive sanctions for non-compliance.	End-Jun. 2021		Reduce corruption risks by strengthening transparency and enhancing oversight.
Start publication of annual report on tax expenditures and their budget implications.	End-Sep. 2021		Strengthen transparency and enhance oversight.
Budget and Revenue Collection			
Submit to Parliament a budget for FY2021/22 consistent with the programed deficit target.	End-Apr. 2021	Not met. Implemented with delay.	Ensure fiscal consolidation consistent with program objectives.
Increase by 30 percent the number of Level II audits of firms, using risk-based approaches to select taxpayers with focus on industry sectors with large gaps in compliance identified by the IMF VAT-Gap analysis.	End-Dec. 2021		Increase compliance and tax revenue.

Table 2. Kenya: Proposed Structural Benchmarks (concluded)

Measure	Target Date	Status	Macro-Criticality
Public Financial Management			
Issue decision to implement across MDAs and Counties a common payroll system linked to IFMIS.	End-Jun. 2021		Contain growth and improve efficiency of expenditure and reduce corruption risks.
Public Investment Management			
Complete stocktaking of existing projects and associated commitments in the areas of education, health, and infrastructure, enter the results in the Hyperion system, and identify projects to be rationalized.	End-Mar. 2021	Met.	Improve debt management and efficiency of spending.
Publish a white paper outlining strategy to strengthen and modernize the monetary policy framework.	End-June 2021		Strengthen the capacity to implement monetary policy effectively in the context of flexible inflation targeting.

Attachment II. Technical Memorandum of Understanding

Nairobi, Kenya, June 10, 2021

1. This memorandum sets out the understandings between the Kenyan authorities and the IMF regarding the definitions of quantitative performance criteria (QPCs) and indicative targets (ITs), their adjusters and data reporting requirements for the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements.

2. For the purposes of the program, the National Government of Kenya (GOK) corresponds to the budgetary national government encompassing the activities of the national executive, legislative and judicial powers covered by the National Budget. Specifically, it includes the parliament, national judiciary, and executive including Ministries, Departments, Agencies (MDAs), and Constitutional Commissions and Independent Offices.

QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

3. The program establishes quantitative performance criteria for March 31, 2021, June 30, 2021, December 31, 2021, and June 30, 2022, with respect to:

- the primary balance of the national government including grants, cash basis (**floor**);
- tax revenue of the national government (**floor**);[1]
- the stock of net official international reserves (NIR) of the Central Bank of Kenya (CBK) (**floor**);
- contracting or guaranteeing of new external non-concessional borrowing by the national government and the CBK (**ceiling**);
- contracting or guaranteeing of new external concessional borrowing by the national government and the CBK (**ceiling**);
- accumulation of public and publicly guaranteed external public arrears (**continuous ceiling**);
- new domestic guarantees granted by the national government or assumption of state-owned enterprise (SOE) debt not reflected in the primary balance (**ceiling**); and
- a monetary policy consultation clause (**band**).

4. The program sets indicative targets for March 31, 2021, June 30, 2021, December 31, 2021, and June 30, 2022 with respect to:

- tax revenue of the national government (**floor**);[2]
- the change in the stock of national government exchequer requests outstanding for 90 days or more (**ceiling**); and
- priority social spending of the national government (floor).

[1] This QPC would be in place starting from the third reviews of the program.

[2] Starting from the third reviews of the program, this IT will be converted into a QPC.

PERFORMANCE CRITERION ON THE PRIMARY BALANCE OF THE NATIONAL GOVERNMENT

5. **The national government primary balance** on a cash basis is defined as national government revenues and grants minus expenditures and net lending, plus due interest payments. For the purpose of the program, all operations such as debt swap or exchange of financial assets between the national government and SOEs with negative equity as of end-June 2020 would be recorded as a reduction in net lending and an increase in grants to SOEs.

6. **For program purposes, the national government primary balance** on a cash basis will be measured from the financing side as the sum of the following: (a) the negative of net domestic financing of the national government; (b) the negative of net external financing of the national government; and (c) domestic and external interest payments of the national government. For the end-March 2021 and end-June 2021 test dates, and for the end-December 2021 and end-June 2022 test dates, the national government primary balance will be measured cumulatively from July 1, 2020 and July 1, 2021, respectively.

The above items are defined as follows:

- **Net domestic financing** of the national government is comprised of (1) net domestic bank financing (which would include items such as credit to the government from commercial banks and the CBK, including the overdraft facility; changes in bank holdings of government debt; and drawdown of government deposits held at commercial banks or the CBK); (2) net domestic nonbank financing (such as changes in non-bank holdings of government debt); (3) proceeds from privatization; and (4) any other borrowing securitized by, or otherwise to be repaid with national government revenue.
- **Net external financing** of the national government at actual transaction exchange rates is defined as the sum of:
  - disbursements of external project loans, including securitization;
  - disbursements of budget support loans;
  - the negative of principal repayments due on all external loans;
  - net proceeds from issuance of external debt;
  - any exceptional financing (including rescheduled principal and interest on external debt);
  - net changes in the stock of short-term external debt; and
  - any change in external arrears including interest payments.
- **Domestic and external interest payments** of the national government are defined as the due interest charges on domestic and external national government debt.

7. The following adjustors will apply to the target on the **national government primary balance:**

- The floor will be adjusted downward by half of any extraordinary SOE support in FY2021/22 and FY2022/23 up to a cumulative amount of 1.0 percent of GDP in such support over that period. Extraordinary SOE support is defined as spending on current and capital transfers to

SOEs included in the GFS 2014 category "Grants to Other General Government Units" (item 263 and subitems), reported in Annex III Table "Expense (KSh Millions)" available from the National Treasury's publication Quarterly Economic and Budgetary Review, in excess of the amounts specified in TMU Table 1. The current coverage of SOEs in the national government's budget will be refined in subsequent reviews of the EFF/ECF arrangements to reflect the findings of the financial evaluation of key SOEs with largest fiscal risk to the FY2020/21 budget as well as the medium-term objectives of the strategy to reform the sector (structural benchmark for end-May 2021).

Table 1. Kenya: Projected Budgetary Transfers to SOEs[1]
(KSh. million)

	2021			2022
	Mar.	Jun.	Dec.	Jun.
Budgetary transfers to SOEs	625,336	833,781	437,735	875,470

Source: Kenyan authorities.
[1] Cumulative from July 1, 2020 for FY2020/21 and from July 1, 2021 for FY2021/22.

- The floor will be adjusted downward if budgetary program grants not specifically related to COVID-19 vaccination fall short of the programmed amounts set out in TMU Table 2 below.
- If resources to finance COVID-19 vaccination become available by the 2nd Reviews of the EFF/ECF arrangements, the floor will be adjusted downward by the amount of foreign concessional project financing dedicated to COVID-19 vaccine interventions and any COVID-19 vaccine related import cost not covered by foreign concessional project financing. The rationale for this adjustment will be reassessed in the context of the 2nd Reviews of the EFF/ECF arrangements.

Table 2. Kenya: Program Grants Disbursements[1]
(KSh. million)

	2021			2022
	Mar.	Jun.	Dec.	Jun.
Program grants	5,182	7,804	1,125	2,500

Source: Kenyan authorities.
[1] Cumulative from July 1, 2020 for FY2020/21 and from July 1, 2021 for FY2021/22.

PERFORMANCE CRITERION ON THE NET INTERNATIONAL RESERVES OF THE CENTRAL BANK OF KENYA

8. **The stock of net official international reserves** (NIR) of the CBK will be calculated as the difference between total gross official international reserves and official reserve liabilities.

- **Gross official international reserves** are defined as the sum of:
  - the CBK's holdings of monetary gold (excluding amounts pledged as collateral);
  - holdings of Special Drawing Rights (SDRs);
  - CBK holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments); and
  - Kenya's reserve tranche position with the IMF.
- **Gross official usable international reserves** exclude:
  - pledged, swapped, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities;
  - deposits with Crown agents; and
  - precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.
- **Gross official reserve liabilities** are defined as:
  - the total outstanding liabilities of the CBK to the IMF, excluding the SDR allocations;
  - convertible currency liabilities of the CBK to nonresidents with an original maturity of up to and including one year; and
  - commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options).

9. The following **adjustors** will apply to the target for NIR:

- If the total of (i) program loans, (ii) the revenue component of project loans, and (iii) external commercial and semi-concessional borrowing–excluding for payments of principal of existing debt with the proceeds from newly issued debt for debt management purposes (¶21 bullet a)–exceeds (falls short) the programmed amounts set out in TMU Table 3 below, the target for NIR will be adjusted upward (downward) by the difference;
- If program grants or the revenue component of project grants falls short of the programmed amounts set out in TMU Table 3 below, the target for NIR will be adjusted downward by the difference;
- The NIR target will be adjusted downward by the full amount of import costs associated with COVID-19 vaccine purchases less any external project financing received for this purpose. The rationale for this adjustment will be reassessed in the context of the 2nd Reviews of the EFF/ECF arrangements.

Table 3. Kenya: Projected Government Grants and Borrowing[1]
(US$ millions)

	2021			2022
	Mar.	Jun.	Dec.	Jun.
Program loans and grants	277	1987	1020	1326
Of which: grants	31	114	4	22
Project loans and grants (revenue component)	604	949	367	808
Of which: grants	138	196	33	78
External commercial and semi-concessional borrowing	0	1125	0	1062

Source: Kenyan authorities.
[1] Cumulative from July 1, 2020 for FY2020/21 and from July 1, 2021 for FY2021/22.

- If the pledged DSSI relief exceeds (falls short of) the programmed amounts set out in TMU Table 4 below, the target for NIR will be adjusted upward (downward) by the difference.

Table 4. Kenya: DSSI Relief[1]
(US$ millions)

	2021			2022
	Mar.	Jun.	Dec.	Jun.
Total DSSI relief	311.3	348.9	374.0	374.0

Source: Kenyan authorities.
[1] Cumulative from July 1, 2020 for FY2020/21 and from July 1, 2021 for FY2021/22.

10. NIR is monitored in U.S. dollars, and, for program monitoring purposes, assets and liabilities in currencies other than the U.S. dollar shall be converted into dollar equivalent values, using the exchange rates as specified in TMU Table 5 below, and net international reserves will be computed as the daily average for the month of the applicable test date.

Table 5. Kenya: Program Exchange Rates
(Rates as of February 4, 2021)

Currency	Kenyan Shillings per currency unit	Currency units per US Dollar
US Dollar	109.8647	1.00
STG Pound	149.8768	0.73
Japanese Yen	1.045882	105.05
Canadian Dollar	85.7648	1.28
Euro	131.9809	0.83
Swiss Franc	122.2213	0.90
Swedish Kronor	13.0437	8.42
Danish Kronor	17.7509	6.19
Chinese Yuan	17.0114	6.46
Australian Dollar	83.662	1.31
SDR	157.464	0.70

Source: Central Bank of Kenya.

CONTINUOUS PERFORMANCE CRITERION ON THE PUBLIC AND PUBLICLY-GUARANTEED EXTERNAL PAYMENT ARREARS

11. Public and publicly-guaranteed external payment arrears to official and private external creditors are defined as overdue payments (principal or interest), which were not made by their contract due date nor during the applicable grace period thereafter, on debt contracted by the national government. Public and publicly-guaranteed external debt payment arrears (principal or interest) to official and private creditors are defined as overdue payments beyond 30 days after the original contract due date in order to allow sufficient time to process the due repayment after the original debtor has notified of its inability to pay. The definition excludes arrears relating to debt subject to renegotiation (dispute or ongoing renegotiation in accordance to both parties) or rescheduling. External debt is defined on a currency basis.

12. The performance criterion on the public and publicly-guaranteed external payment arrears is defined as a cumulative flow in gross terms from January 1, 2021 and applies on a continuous basis.

CEILING ON THE CONTRACTING OR GUARANTEEING OF NEW NON-CONCESSIONAL AND CONCESSIONAL EXTERNAL DEBT

13. For program purposes and this TMU, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No.15688-(14/107), adopted December 5, 2014.

14. External debt is any debt as defined in paragraph 13, which is denominated in foreign currency, i.e., currency other than Kenyan Shillings (KSh). For debt with original maturity of one year or less, new debt would be measured as the change in the outstanding stock over the specified period. The ceiling does not apply to the use of Fund resources. External debt and its concessionality will be measured in U.S. dollars at program exchange rates.

15. The performance criterion or indicative target will include all forms of debt. For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms; the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

16. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

17. Performance criteria (ceiling) apply to the nominal value of new non-concessional external debt and the nominal value of new concessional external debt, contracted or guaranteed by the national government and/or the CBK. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended.

18. The ceiling on the nominal value of new concessional external debt, contracted or guaranteed by the national government and/or the CBK, would be adjusted upward for the full amount of any project financing dedicated to COVID-19 vaccine interventions. In this connection, the authorities will consult with IMF staff on any planned external concessional borrowing for this purpose and the conditions on such borrowing before the loans are either contracted or guaranteed by the government. The rationale for this adjustment will be reassessed in the context of the 2nd Reviews of the EFF/ECF arrangements.

19. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its signing date of an underlying loan agreement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. A debt with a grant element lower than 35 percent is considered non-concessional.

20. For any debt carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 0.04 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -56 basis points. The spread of six-month JPY OIS over six-month USD SOFR is -8 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is 1 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is 15 basis points.[3] Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

21. The performance criterion on contracting or guaranteeing new external non-concessional debt includes two sub-ceilings:

a. Debt for debt management operations that improves the overall public debt profile; operations that improve the overall debt profile are operations that reduce the present value of external debt and improve the external debt service profile. Refinancing of principal payments—payments of principal of existing debt with the proceeds from newly issued debt for debt management purposes—will count against this sub-ceiling and must improve the overall public debt profile as specified. Refinancing of outstanding interest payments using the proceeds from non-concessional borrowing for debt management purposes is not permitted under this sub-ceiling and will result in non-observance of the performance criterion. This sub-ceiling shall be cumulative from the beginning of the program.

b. Debt (including bond issuance) for financing projects integral to the development program for which concessional financing is not available; this sub-ceiling refers to debt to finance the projects specified in the list below (ANNEX I). Any contracting or guaranteeing of non-concessional external debt for projects other than those listed in

[3] The program reference rate and spreads are based on the "average projected rate" for the six-month USD SOFR over the following 10 years from the Fall 2020 World Economic Outlook (WEO).

ANNEX I results in the non-observance of the performance criterion. This sub-ceiling shall be cumulative from the beginning of the program. Amounts applied toward this limit do not count toward the sub-ceiling on non-concessional borrowing for debt management purposes.

CEILING ON NEW DOMESTIC GUARANTEES GRANTED BY THE NATIONAL GOVERNMENT

22. National government guarantees on domestic borrowing include all guarantee commitments for (i) borrowing in domestic currency from residents and nonresidents; as well as (ii) guarantees extended by any SOE.

MONETARY POLICY CONSULTATION CLAUSE

23. The bands around the projected 12-month rate of inflation in consumer prices, as measured by the headline consumer price index (CPI) published by the Kenya National Bureau of Statistics, are specified in the TMU Table 6 below.

- If the observed average of the 12-month rate of CPI inflation for the three months preceding the test date falls outside the lower or upper bands specified in the TMU Table 6 below, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources will be interrupted until the consultation takes place.

Table 6. Kenya: Monetary Policy Consultation Clause, 2021–22
(percent values)

	end–Mar. 2021 Target	end-Jun. 2021 Target	end–Dec. 2021 Target	end-Jun. 2022 Target
Upper band	7.5	7.5	7.5	7.5
Center point	*5.0*	*5.0*	*5.0*	*5.0*
Lower band	2.5	2.5	2.5	2.5

Source: Kenyan authorities.

FLOOR ON TAX REVENUE OF NATIONAL GOVERNMENT (INDICATIVE TARGET AND QUANTITATIVE PERFORMANCE CRITERION)

24. Tax revenue of the national government are defined as the sum of personal income tax (PAYE), corporate income tax, import duties, excise duties, value added tax, and other taxes (e.g., alternative minimum tax, digital sales tax). For the purpose of the program, tax revenues exclude the following items presented in the monthly Budget Outturn Tables (BOT): taxes related to "Ministerial Appropriation in Aid" (i.e., RML, RDL, PDL), "Taxes on International Trade and Transactions (IDF fee)," "Capital gains," and "other taxes on goods and services."

INDICATIVE TARGET ON NATIONAL GOVERNMENT OUTSTANDING EXCHEQUER REQUESTS

25. For the purposes of the program, national government outstanding exchequer requests are defined as invoices for goods or services provided to the national government for which requisitions for payment have been received in the Integrated Financial Management Information System (IFMIS) but corresponding funds from the exchequer account have not been released.

26. The program ceiling for the change in the stock of outstanding exchequer requests refers to requisitions made after the start of July 2020 and invoices unpaid for 90 days or longer, disregarding any changes related to legal rulings or claims found invalid on bills originated before the start of the program.

INDICATIVE TARGET ON PRIORITY SOCIAL SPENDING

27. For the purposes of the program, priority social spending of the national government is defined as the sum of:

- cash transfers to orphans and vulnerable children,
- cash transfers to elderly persons,
- cash transfers to persons with severe disabilities,
- free primary education expenditure,
- free secondary education expenditure,
- school food and sanitary programs,
- free maternal healthcare,
- universal health coverage,
- health insurance subsidy for targeted categories (i.e., orphan, vulnerable children, the elderly, and people with disabilities), and
- spending for vaccination and immunization.

The floor on priority social spending of the national government is defined as the programmed amounts set out in TMU Table 7 in next page.

Table 7. Kenya: Priority Social Spending[1]
(KSh. millions)

	2021			2022
	Mar.	Jun.	Dec.	Jun.
Priority Social Spending	292,611	390,978	205,395	397,320

Source: Kenyan authorities.
[1] Cumulative from July 1, 2020 for FY2020/21 and from July 1, 2021 for FY2021/22.

DATA REPORTING

To monitor program performance, the National Treasury and the CBK will provide to the IMF the information at the frequency and within the reporting deadlines specified in TMU Table 8 below. The authorities will transmit promptly to Fund staff any data revisions. For any information (and data) that is (are) relevant for assessing performance against program objectives but is (are) not specifically defined in this memorandum, the authorities will consult with Fund staff. The authorities will transmit promptly to IMF staff any data revisions, as well as other information necessary to monitor the arrangements with the IMF

Table 8. Kenya: Summary of Data to Be Reported			
Information	**Frequency**	**Reporting Deadline**	**Responsible Entity**
1. Primary balance of the national government			
Net domestic bank financing (including net commercial bank credit to the national government and net CBK credit to the national government broken down in their main components)	Monthly	Within 20 days after month end.	CBK
Net nonbank financing of the national government	Monthly	Within 20 days after month end.	NT
Proceeds from privatization	Monthly	Within 20 days after month end.	NT
Debt service paid and coming due on domestic debt	Monthly	Within 20 days after month end.	CBK
Debt service paid and coming due on external debt	Monthly	Within 20 days after month end.	NT
Disbursements and repayment schedule of external concessional and non-concessional project loans, including securitization	Monthly	Within 20 days after month end.	NT
Disbursements and repayment schedule of budget support loans	Monthly	Within 20 days after month end.	NT
Disbursements and repayment schedule of on all external loans	Monthly	Within 20 days after month end.	CBK
Net proceeds from issuance of external debt	Monthly	Within 20 days after month end.	CBK
Any exceptional financing (including rescheduled principal and interest)	Monthly	Within 20 days after month end.	NT
Net changes in the stock of short-term external debt	Quarterly	Within 45 days after quarter end.	NT
Change in external arrears, including interest and principal, and penalties	Monthly	Within 20 days after month end.	NT
Stock and movements in MDAs' pending bills for prior fiscal years	Monthly	Within 20 days after month end.	NT
Stock of exchequer requests made after the start of July 2020 and unpaid for 90 days or more	Monthly	Within 20 days after month end.	NT
National government transfers to SOEs broken down in main categories based on GFS 2014 classification	Quarterly	Within 20 days after the end of the quarter.	NT
2. Public debt			
Stock of Treasury Bills and Bonds	Quarterly	Within 45 days after quarter end.	NT
Auctions of T-bills and T-bonds via primary dealers, including the number and value of submitted and accepted bids, minimum, maximum and weighted average interest rates and maturity dates	Weekly	Within 7 working days after the end of the week.	NT
Total new other domestic debt contracted or guaranteed	Monthly	Within 20 days after the end of the quarter.	NT in collaboration with CBK
Total new contracted external project loans	Monthly	Within 20 days after the end of the quarter.	NT
Total other new contracted or guaranteed external concessional debt	Monthly	Within 20 days after the end of the quarter.	NT in collaboration with CBK
Total new Eurobond issuances	Monthly	Within 20 days after the end of the quarter.	NT
Total new other non-concessional external debt contracted or guaranteed	Monthly	Within 20 days after the end of the quarter.	NT in collaboration with CBK

Table 8. Kenya: Summary of Data to Be Reported (concluded)			
Information	**Frequency**	**Reporting Deadline**	**Responsible Entity**
3. Gross official international reserves			
CBK's holding of monetary gold (excluding amounts pledged as collateral)	Monthly	Within 20 days after the end of the month.	CBK
Holdings of SDRs	Monthly	Within 20 days after the end of the month.	CBK
CBK holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments)	Monthly	Within 20 days after the end of the month.	CBK
4. Official reserve liabilities			
Total outstanding liabilities of the CBK to the IMF excluding the SDR allocations	Monthly	Within 20 days after month end.	CBK
Convertible currency liabilities of the CBK to nonresidents with an original maturity of up to and including one year	Monthly	Within 20 days after month end.	CBK
Commitments to sell foreign exchange arising from derivatives	Monthly	Within 20 days after month end.	CBK
5. Other indicators			
Currency in circulation	Monthly	Within 20 days after month end.	CBK
Required and excess reserves	Monthly	Within 20 days after month end.	CBK
Concessional and non-concessional medium- and long-term external debt contracted or guaranteed by the national government and CBK	Monthly	Within 20 days after month end.	NT
Accumulation of national government external payment arrears	Monthly	Within 20 days after the end of the quarter.	NT
Social priority spending of the national government	Quarterly	Within 45 days after quarter end.	NT
Grants to government entities and total subsidies	Quarterly	Within 20 days after month end.	NT
Guarantees issued by the national government to counties, public enterprises, and all parastatal entities	Monthly	Within 20 days after the end of the quarter.	NT
Stock of guarantees extended by the national government	Monthly	Within 20 days after the end of the quarter.	NT
12-month CPI inflation	Monthly	Within 15 days after the end of the month.	KNBS
Financial Soundness Indicators (core and expanded) for other depository corporations	Quarterly	Within 20 days after quarter end.	CBK

Annex I of the TMU: List of Projects

	Project	Sector
1	Digital Learning	Access to Universal Information
2	E-Government Services	
3	ICT and BPO Development	
4	ICT Infrastructure Connectivity	
5	Cooperative Development and Management	Agricultural Production and Management
6	Fisheries, Aqua Culture and Blue Economy	
7	Food Security and Crop Diversification Project	
8	KAGRC Liquid Nitrogen	
9	Livestock Resources development and Management	
10	Mechanization of Agricultural Development Project	
11	National Value Chain Support Programme	
12	Promotion of Industrial Development and Investments	
13	Provision of Credit to MSMEs in Manufacturing sector- KIE	
14	Construction of Computer Labs to Support Digital Literacy Programme	Education
15	Infrastructure Development and Expansion of TVETs	
16	Renovation and expansion of infrastructure in public primary schools	
17	Renovation and expansion of infrastructure in public Secondary schools	
18	University Education	
19	Vocational Training and Research	
20	Vocational Training Centres Support(Youth Polytechniques	
21	National Grid System	Energy
22	Rural Electrification	
23	Correctional Facilities	Enhanced Security
24	Digitization of Land registries	Environment Protection and Management
25	Forests and Water Towers Conservation	
26	Irrigation and Drainage	
27	Processing and Registration of Title deeds	
28	Sanitation Infrastructure Development and Management	
29	Sewerage Infrastructure Development	
30	Water Harvesting and Storage for Irrigation	
31	Water Resources Conservation and Protection	
32	Water Storage and Flood Control	
33	Construction of Affordable Housing Units	Improvement of Housing Planning and Infrastructure
34	Construction of Housing Units for National Police & Kenya Prison	
35	Construction of Markets and Fire Stations	
36	Kenya Informal Settlements Improvement& slum upgrading projects	
37	Construction of Roads and Bridges and Roads rehabilitation	Improvement of Infrastructure
38	Expansion of Airports and air strips(Malindi, Lanet, Migori)	
39	Lamu Port- South Sudan- Ethiopia - Transport (LAPSSET)Project	
40	Special Economic Zones(Naivasha & Dongo Kundu)	
41	Expansion of Courts	Improvement/Access to Justice
42	Establishment of Regional Cancer Centres	Universal Health Coverage
43	Expansion of Referral Hospitals	
44	Forensic and Diagnostics	
45	Free Maternity Program	
46	Managed Equipment Service-Hire of Medical Equipment for 98 Hospital	
47	Reproductive Maternal Neo-natal Child & Adolescent Health-RMNCAH	
48	Roll-out of Universal Health Coverage. COVID-19 response and mitigation strateg	
49	Human wildlife mitigation programme	Wildlife conservation/Tourism Promotion and Marketing
50	Maintenance of Access Roads and Airstrips in Parks	
51	Tourism Infrastructure Development and Promotion	

KENYA

June 16, 2021

FIRST REVIEWS OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUESTS FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND STRUCTURAL CONDITIONALITY—SUPPLEMENTARY INFORMATION

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Prepared by
The African Department

1. **Staff has received new information from the Kenyan authorities after the staff report for the first reviews of the EFF/ECF Fund-supported arrangements was issued to the Board.** The information received does not change the thrust of the staff appraisal.

Outturn of Priority Social Spending at end-March 2021

2. **The Kenyan authorities have provided revised information on the execution of priority social spending through end-March 2021, which totaled KSh.284.8 billion.** The new data primarily reflect availability of information on expenditure returns (as opposed to Exchequer requests which are available early on) for payments of wages in the education and health sectors as well as transfers to the elderly.

3. **Based on the new information, the end-March 2021 IT on priority social spending was missed by about KSh.8 billion rather than KSh.3 billion as reported in Table 1 of the MEFP.** The data revision does not change staff's assessment about the non-observance of the IT by a small margin (revised amount is equivalent to 0.07 percent of GDP) due to delays in releasing Exchequer resources.

Statement by the Executive Director, Ms. Ita Mary Mannathoko, and by the Senior Advisor of the Executive Director, Mr. James Alic Garang
June 23, 2021

I. Introduction

1. The Kenyan authorities appreciate the constructive engagement with Fund staff during the first review of the Extended Credit Facility and Extended Fund Facility (ECF/EFF) Arrangements, and broadly agree with the key reform priorities articulated by staff.

2. The COVID-19 crisis continues to exact a heavy toll on Kenya, reflected in socioeconomic hardship and the threat of a reversal in hard-won gains in poverty reduction. The authorities have adopted an Economic Recovery Strategy (ERS) designed to lay the foundation for an inclusive recovery and reposition the economy on a sustainable growth path. The ERS builds on gains from the earlier Economic Stimulus Program (ESP), prioritizing employment creation, focusing on enhancing budgetary allocations, supporting MSMEs, facilitating private sector-led development, and boosting social protection and natural disaster risk management, among other things.

3. Directors' support is sought for the completion of this EFF/ECF review and the request for modification of PCs. The authorities have continued to honor commitments under the RCF/RFI letter of intent, ensuring transparency in the use of COVID-related resources. They have initiated regular reporting on pending bills and are reviewing their legal and regulatory structures to enhance accountability, and transparency in the use of public funds. The Auditor General submitted the results of comprehensive audits covering all FY2019/2020 COVID-19 related expenditures to Parliament in late May, and they were published in early June. Remedial measures are ongoing to resolve a few issues raised in the audits, especially those related to the procurement of healthcare equipment. The authorities are also strengthening public accountability through ongoing enhancements of the public procurement portal, enabling publication of comprehensive information on firms that received procurement contracts, including the names of their beneficial owners.

II. Recent Pandemic and Economic Developments and Outlook

4. While Kenya has started to relax containment measures that were instituted when the third wave of infections began, cases will likely continue to rise until there is wider vaccination coverage and herd immunity is achieved. Kenya participates in the COVAX facility and received its first doses in March, vaccinating about 2 percent of the population by end-May 2021. The authorities are mobilizing resources alongside donor support to procure more doses from a range of sources. They have taken steps to significantly ramp up the vaccination campaign targeting 14.5 million people by end July 2022, and the balance needed to reach 60 percent of the population by 2023.

5. Economic activity is projected to rebound to 6 percent in 2021 from 0.3 percent in 2020 on the account of improved agriculture output, manufacturing, and improved performance in other sectors. Despite risks from the third wave of infections, the authorities remain optimistic that the impact of the geographically concentrated containment measures on the GDP would be minimal. At the same time, the remittances, and exports of key sectors such as tea and horticulture are expected to remain resilient, supporting improvement of the current account balance. In the medium term, economic activity is expected to pick up, buoyed by growth in agriculture, trade, and manufacturing, as the pandemic comes under control.

6. Inflation is projected to remain near the mid-point of the authorities' target range in 2021 through the medium term, anchored by prudent monetary policy. International reserves remain adequate, covering about 5 months of imports.

III. Program Performance

7. Performance under the program has been strong, with all performance criteria (PCs), continuous PCs, and structural benchmarks (SBs) for end-March met. That said, some indicative targets (ITs) for end-March 2021 were missed by narrow margins, partly due to the challenging COVID-19 environment. The authorities met the fiscal balance target for end-March by a wide margin and planned tax policy measures were fully implemented with slightly less than expected tax revenue yields due to the pandemic. Though three structural benchmarks (SBs) at end-April and end-May were not met on time, the authorities remained committed with two having been subsequently completed, and the last one expected to be completed soon.

8. The FY2021/2022 budget submitted to Parliament reflects the authorities' ambitious multi-year plan to reduce debt-related vulnerabilities, while supporting social spending. They are also developing a strategy to manage fiscal risks from State Owned Enterprises (SOEs). Looking ahead, the authorities are requesting modifications to PCs on net international reserves for end-June 2021; the IT on tax collection for end-June 2021; and one end-June 2020 SB on the common payroll system across different public sector entities. They remain optimistic about the successful implementation of this program and its long-term impact on the country's economic development.

IV. Macroeconomic Policies and Measures

Fiscal Policy and Debt Management

9. The authorities remain committed to fiscal and debt sustainability and are pursuing a multi-year growth-friendly fiscal consolidation centered on revenue mobilization and expenditure prioritization, while safeguarding social spending and jobs programs that support poverty reduction. The authorities are conscious of the need to ensure adequate social programs for the most vulnerable households, while prioritizing key public investments. They are also addressing fiscal risks from SOEs and PPPs, while strengthening public financial management (PFM), enhancing commitment controls and cash management, and fostering good governance and transparency in the management of public resources. Efforts to prevent accumulation of domestic arrears and to improve fiscal transparency will also buttress reform endeavors. Given

the ongoing uncertainty in the outlook, the FY2021/2022 budget proposal has a contingency plan, including commitment to phase out tax exemptions and conduct expenditure reviews with the support of the World Bank.

10. The Kenya Revenue Authority (KRA) has identified measures to enhance revenue administration reforms and collections, including automation and leveraging iTax, a simplified web-based tax collection platform. The KRA continues to broaden the revenue base, revamp the audit function, and apply clear measures to recover tax arrears. The authorities have also appealed against the High Court ruling that suspended the imposition of a Corporate Minimum Tax (CMT) and are confident that they will ultimately prevail. KRA expects a gradual recovery in fiscal performance with some improvement evident this fiscal year.

11. The fiscal authorities are also strengthening debt management. Consistent with program objectives, they plan to introduce a new debt anchor and meet accountability requirements to ensure public buy-in and parliamentary oversight. The authorities continue to limit foreign debt and ensure proper debt reporting and transparency. Measures are taken to avoid bunching of repayments and to contain debt vulnerabilities. To ensure coordination and timely sharing of data, including on debt, the authorities have established an inter-agency working group within the Macro and Fiscal Affairs Department in the national treasury, to ensure high-quality economic statistics and support evidence-based decision making.

Monetary and Financial Sector Policies

12. The authorities will maintain an accommodative monetary policy stance while containing inflation, ensuring that monetary policy continues to anchor price expectations. The CBK is also strengthening the monetary policy framework and inflation targeting regime, while ensuring exchange rate flexibility. When the MPC met recently it resolved to ensure effective communication, modernize macroeconomic modelling and forecasting frameworks, enhance operations of financial markets, and improve governance to promote monetary transmission mechanisms and policy credibility.

13. The CBK had lowered its central bank policy rate in March and April 2020, in the wake of the pandemic, and reduced the cash reserve ratio, alongside measures to temporarily ease repayment conditions for borrowers in businesses and households impacted by the pandemic. The CBK also undertook a series of liquidity support measures and reduced charges on mobile money transactions to disincentivize the use of cash. Mobile money has been the backbone of the cash transfer program and general economic transactions during the pandemic.

14. The financial sector remains on a solid footing and is well-capitalized and profitable, despite emerging risks on borrowers' balance sheets, including elevated non-performing loans (NPLs). The share of NPLs in gross loans has risen to 14.6 percent in March 2021 from 14.1 percent in December 2020, as business activity remains subdued. Banks continue to make the required provisions for NPLs. The capital adequacy ratio and liquidity ratio have remained well above statutory standards through end-March 2021. That said, the authorities continue to monitor potential financial risks. The CBK is closely monitoring loan restructuring, strengthening

the credit referencing mechanism, sustaining reforms to the regulatory and supervisory framework, and further strengthening bank capital buffers, even as the authorities enhance the use of mobile money, embrace digital platforms and promote access to affordable finance. Attention is also directed at prompt resolution of troubled institutions, an example being the recent liquidation of two troubled banks.

Structural Reforms, Governance, and Accountability

15. The authorities are accelerating key structural reforms for good governance and accountability, enhancing asset declaration, upgrading the AML/CFT framework, and improving the business environment and the macroeconomic statistics that enable increased transparency. They remain committed to improving public financial management systems and aligning the payrolls for national and county governments. The medium-term focus is on integrating semi-autonomous agencies (SAGAs), and strengthening procurement systems, among other things.

16. The authorities have initiated reviews of various legislative bills to improve accountability for use of public resources. These include the Conflict of Interest Act targeted for end-September 2021, the Access to Information Act, the Criminal, Bribery, and Evidence Acts, the Anti-corruption and Economic Crimes Act, the Asset Recovery Act, the Prevention of Organized Crimes Act, and the Proceeds of Crime and Anti-Money Laundering Act. These bills will impact access to information, criminalize acts of corruption, boost recovery of public assets and improve the ease of doing business.

V. Conclusion

17. Our Kenyan authorities reaffirm their commitment to prudent macroeconomic policies and laying the foundation for stronger post-COVID-19 recovery with inclusive growth. They look forward to Executive Directors' support towards the completion of the first review under the EFF/ECF arrangements.