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KENYA

September 2015

FIRST REVIEW UNDER THE TWELVE-MONTH STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STAND-BY CREDIT FACILITY, REQUEST FOR WAIVERS FOR NON-OBSERVANCE OF PERFORMANCE CRITERION, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KENYA

In the context of the First Review Under a Stand-By Arrangement and the First Arrangement Under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 16, 2015, following discussions with the officials of Kenya on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement and Standby Credit Facility. The staff report was completed on September 1, 2015
- A **Debt Sustainability Analysis** update prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Kenya.

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

Letter of Intent sent to the IMF by the authorities of Kenya*
Memorandum of Economic and Financial Policies by the authorities of Kenya*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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September 16, 2015

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IMF Executive Board Completes First Review Under the Stand-By Arrangement and Standby Credit Facility Arrangement for Kenya

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Kenya's performance under the program supported by the Stand-By Arrangement (SBA) and an Arrangement under the Standby Credit Facility (SCF). The 12-month SBA/SCF with a combined total access of SDR 488.52 million (about US$687 million) was approved by the IMF's Executive Board on February 2, 2015 (see Press Release No. 15/29).

The authorities intend to continue treating both arrangements as precautionary. The Executive Board's decision makes available an additional SDR 54.28 million, bringing the cumulative amount available under the arrangements to SDR 434.24 million (about US$610.7 million) for the Kenyan authorities to draw on in the event that exogenous shocks lead to an actual balance of payments need.

In completing the review, the Executive Board approved the authorities' request for the waivers of the non-observance of the continuous performance criterion on external arrears and the modification of performance criteria for end-September 2015.

Following the Executive Board discussion on Kenya, Mr. Min Zhu, Deputy Managing Director and Acting Chair, said:

"Kenya's economic performance has remained satisfactory despite headwinds from rising volatility in global markets and domestic security challenges. Real GDP growth has been robust, and, notwithstanding the recent shilling depreciation, inflation has remained within the authorities' target range. External buffers to date have remained adequate.

"The authorities' fiscal program for 2015/16 seeks to address persistent security challenges and infrastructure bottlenecks while preserving macroeconomic stability. The authorities' commitments to contain current spending and mobilize additional revenue are welcome and should contribute to mitigating excess demand pressures. Over the medium term, continued efforts are needed to boost fiscal space to accommodate development priorities and an orderly process for devolving fiscal responsibility to lower tiers of government while maintaining public debt sustainability.

“Public financial management reforms—in particular, strengthening capacity at the National Treasury’s Debt Management Office and the introduction of the Treasury Single Account—should be decisively implemented. The authorities have taken a number of steps to strengthen expenditure control and improve the efficiency of public spending. However, counties’ access to the Central Bank of Kenya’s (CBK) overdraft facility could complicate monetary policy implementation.

“Recent decisive steps by the central bank to tighten monetary policy are appropriate. These steps will help contain the impact of the recent shilling depreciation on domestic prices and anchor inflationary expectations. The central bank remains committed to refraining from intervening in the foreign exchange market except for smoothing excessive exchange rate volatility.

“The authorities’ commitment to improve the central bank’s stress testing framework is important to address potential risks associated with balance-sheet effects of the recent currency depreciation. Efforts to strengthen supervision of banking groups operating outside Kenya are also welcome in light of the rapid expansion of Kenyan banks abroad. The recent exchange rate volatility puts a premium on monitoring corporate borrowing from abroad.”

KENYA

September 1, 2015

FIRST REVIEW UNDER THE TWELVE-MONTH STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUEST FOR WAIVERS FOR NON-OBSERVANCE OF PERFORMANCE CRITERION, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Precautionary program: The Executive Board approved on February 2, 2015 a 12-month Stand-By Arrangement (SBA) and an arrangement under the Standby Credit Facility (SCF), with combined access of SDR 488.52 million (180 percent of quota). The first tranche of SDR 379.96 million (140 percent of quota) was made available upon approval of the arrangements, and a further SDR 54.28 million (20 percent of quota) will become available upon completion of the first review. The authorities intend to continue treating both arrangements as precautionary, and to draw only if exogenous shocks lead to an actual balance of payment need.

Program status: All quantitative performance criteria for end-March 2015 were met, but the continuous performance criterion on external arrears was not observed due to the emergence of temporary technical arrears on external debt—since fully repaid—for which the authorities request waivers under both arrangements. These arrears reflect a coordination failure among government's entities rather than inability to pay, and the authorities have adopted corrective measures. The indicative target on net international reserves (NIR) for end-June 2015 was missed, as was the target on Central Bank of Kenya's (CBK) net domestic assets (NDA). All other end-June 2015 indicative targets were met. There were delays in implementing some structural benchmarks, which have been reset.

Program modalities: The adverse impact of heightened volatility in global markets and of the recent terrorist attacks warrant a modest revision of the program's macroeconomic framework and quantitative targets, notably on growth and the inflation outlook, the fiscal targets, and the international reserves floor. Given Kenya's low risk of external debt distress, and in line with the Fund's new debt limits policy, staff recommends elimination of the ceiling on non-concessional external debt for end-September 2015, while maintaining the ceiling on the primary fiscal deficit.

Staff views: The authorities' economic program supported by the precautionary SBA-SCF arrangements maintains a sustainable public debt position while addressing infrastructure gaps. The CBK has taken decisive actions to tighten monetary policy to keep inflation expectations in check, and has continued to strengthen financial sector oversight. On that basis, and given the corrective actions to avoid new external payment arrears, staff recommends completion of the first review and supports the authorities' request for a modification of performance criteria for end-September 2015, and for waivers for non-observance of the performance criterion on external arrears.

Approved By
Roger Nord (AFR) and Chris Lane (SPR)

Discussions were held in Nairobi during May 20- June 2, 2015 and continued in subsequent weeks. The staff team comprised Messrs M. Mecagni (head), E. Alper, N. Hobdari (all AFR); D. Moore (SPR); C. Abdallah (FAD); and M. Souto (MCM). Mr. R. Morales (Resident Representative) participated in the discussions. Ms. Kapwepwe, Executive Director, participated in some policy meetings, and Ms. Rose Ngugi from the Executive Director's office joined the mission. The mission met with Cabinet Secretary to the Treasury Rotich, CBK Deputy Governor Sirima as well as other senior government officials, members of the CBK Monetary Policy Committee, and representatives of the private sector and the donor community.

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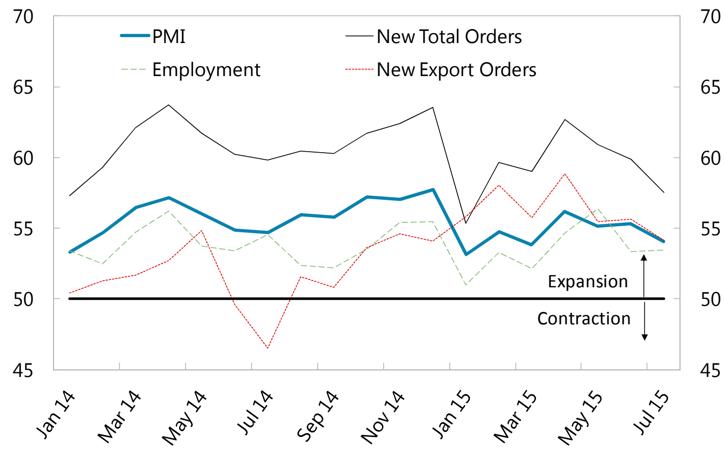
DEVELOPMENTS UNDER THE PROGRAM

1. **Kenya's economic growth has been robust despite headwinds from the global slowdown and ongoing domestic security problems** (Figure 1). Real GDP grew by 5.3 percent in 2014, and by 4.9 percent in 2015 Q1. Confidence indicators suggest continued growth momentum in 2015, with export orders and employment creation accelerating in recent months. This momentum is underpinned by higher private final consumption benefitting from lower oil prices, and higher public infrastructure investment—notably the construction of the standard gauge railway (SGR), and the expansion of geo-thermal electricity generation. However, the tourism sector remains weak.

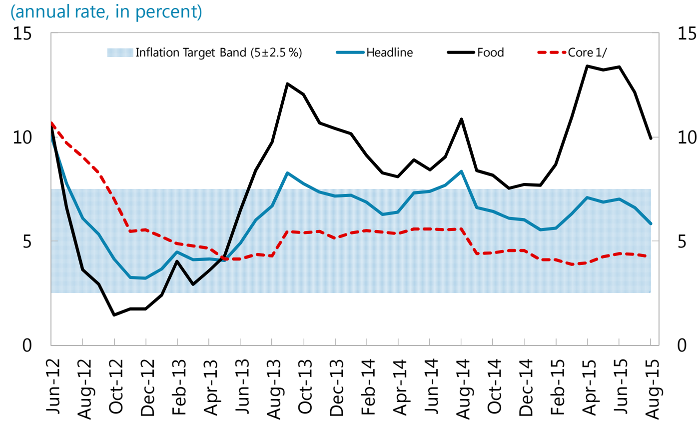
Kenya: Business Confidence Indicators



Sources: Markit Economics Limited.

2. **Inflation remains within the authorities' target band despite higher food prices and shilling depreciation** (Figure 2). Core inflation has remained below the government's 5 percent target since mid-2014. However, there has been renewed pressure in recent months on prices of domestic crops. In addition, the shilling weakened in nominal effective terms by over 10 percent between March and July 2015, with an impact on import prices. To contain the possible impact of these factors on inflationary expectations, the CBK first raised rates on longer-maturity instruments for central bank operations (from 0 to 250 basis points above the policy rate) in May 2015, followed by increases in its policy rate (CBR) in June (the first CBR change since May 2013) and again in July, for a cumulative 300 basis point increase to 11.5 percent. These steps have started to translate into higher T-Bill rates (see ¶16).

Kenya: Recent Inflation Developments
(annual rate, in percent)



Sources: Kenyan authorities and Fund staff estimates.
1/ Core inflation excludes, food, energy, and transportation.

3. **Preliminary data suggest that the 2014/15 program target for the primary fiscal deficit (excluding SGR) was met, despite a higher-than-envisaged overall deficit** (Table 2). The higher overall deficit reflected mainly a faster-than-projected implementation of the SGR (¾ percent of GDP), and a shortfall in revenue collection (1¾ percent of GDP). In addition, following the Garissa

terrorist attack, security-related spending increased (0.3 percent of GDP), and the government provided financial support to Kenya Airways (0.1 percent of GDP), which is under pressure from a sharp decline in tourist arrivals. To contain these pressures, the authorities froze expenditure commitments from early June. According to preliminary data, the program target for 2014/15 on the primary deficit target excluding SGR was met, while the overall deficit reached 8.2 percent of GDP, compared with 7.6 percent envisaged under the program.

Kenya: Central Government Financial Operations for 2014/15
(percent of GDP)

	Program 1/	Supplementary Budget 2/	Preliminary Outturn
Revenue and grants	21.1	21.6	19.4
Tax revenue	17.9	17.5	16.8
Non-tax revenue	2.7	3.0	2.1
Grants	0.5	1.2	0.5
Expenditure and net lending	28.7	31.9	27.9
Recurrent expenditure	19.7	20.5	18.8
Development and net lending	9.0	11.3	9.0
Overall balance	-7.6	-10.2	-8.2
Primary balance	-5.1	-7.3	-5.5
Primary balance excluding SGR 3/	-3.7	-5.1	-3.3
Financing	7.6	10.2	8.2
Foreign	3.3	4.6	3.8
Domestic	4.3	5.5	4.4

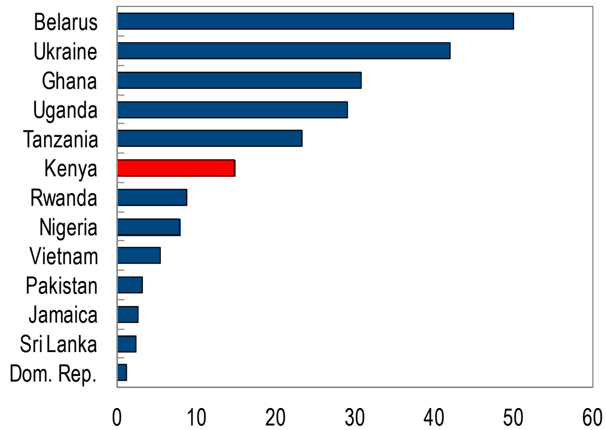
Source: Kenyan authorities.
1/ IMF Country Report No. 15/31.
2/ Approved by parliament in June 2015.
3/ Program indicative target for end-June 2015.

4. **The external current account deficit widened in 2014 and remains high, while capital inflows are tapering** (Figures 4-5). The current account deficit in 2014 reached 10.4 percent of GDP, reflecting higher machinery imports associated with investment projects, lower tea prices, weaker terms of trade, and a decline in tourism receipts. Net capital inflows were also large in 2014, with new portfolio inflows from debut Eurobond issuances totaling US$2.75 billion. However, inflows have been tapering more recently amid increasing volatility in global markets, and tourism receipts have contracted further in the wake of the Garissa attack.[1] As a result, the Kenyan shilling has depreciated in recent months, in line with developments in the region and other frontier economies, and reflecting the strengthening of the U.S, dollar in global markets. With the recent depreciation, Kenya's real exchange rate is broadly in line with fundamentals.[2] Kenya's Eurobond spreads have increased, but compare favorably with those of other SSA countries.

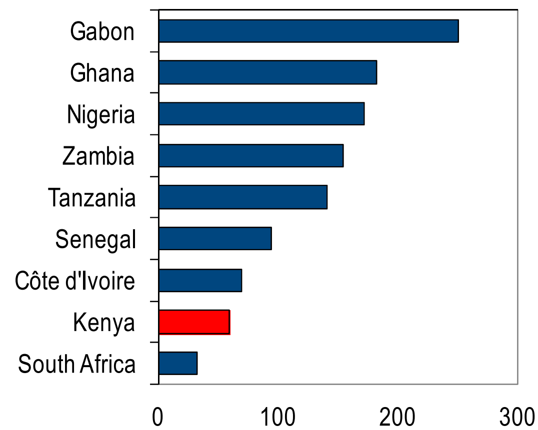
[1] The preliminary external current account and international reserves' outturn for the first half of 2015 implies a downward revision of short-term capital flows estimates by about US$750million (Table 4c).

[2] An update of the exchange rate assessment in IMF Country Report No. 14/302 suggests that Kenya's real exchange rate was moderately overvalued in early 2015. However, the depreciation of the shilling since April 2015 has brought the real exchange rate back broadly in line with fundamentals.

Frontier Economies: Exchange Rate to U.S. Dollar
(Depreciation in percent Jan 1-Aug 25, 2015)

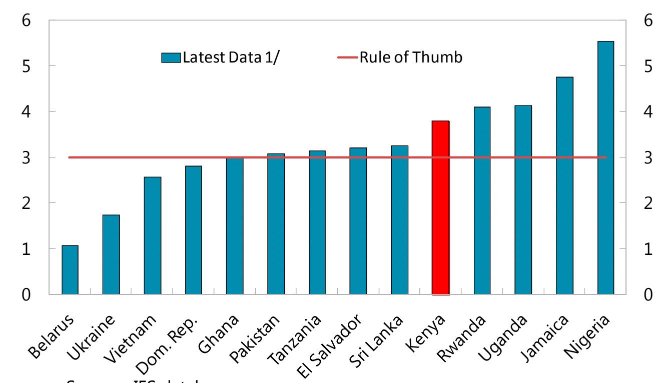


Sub-Saharan Africa: Sovereign Spreads
(Basis points change Oct 1, 2014-Aug 21, 2015)



5. **Reserve coverage remains adequate**. The CBK intervened in the foreign exchange market to smooth heightened volatility. In addition, the Treasury made use of 2014 Eurobond receipts deposited at CBK for capital imports related to infrastructure spending. As a result, gross international reserves fell to US$7.1 billion at end-June (from US$8 billion at end-2014). The reserves cover remains adequate: at 3.8 months of prospective imports and 30 percent of broad money (M3) as of end-June 2015, gross reserves remain above the standard adequacy thresholds (3 months of imports and 20 percent of M3). Kenya's need to hold reserves is mitigated by its flexible exchange rate regime, and a favorable maturity structure of public external debt (exceeding 10 years).

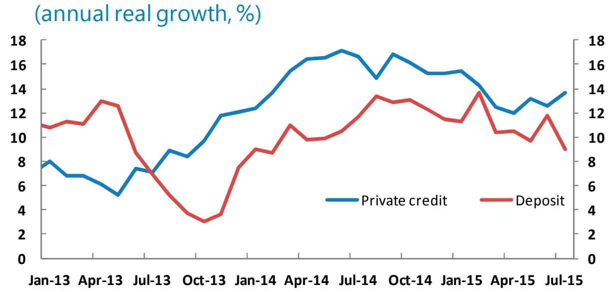
Selected Frontier Economies: International Reserve Cover
(Months of imports)



Sources: IFS database.
1/ End-December 2015 through end-May 2015 depending on availability.

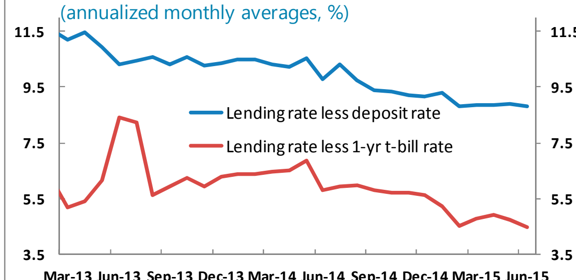
6. **Credit growth is moderating and exchange rate risks in bank balance sheets appear relatively contained** (Figure 6). Real growth of bank lending reduced to 13 percent in the year to June, converging to real growth rates for bank deposits. NPL ratios remained stable (5¾ percent), even when considered net of provisions against core capital. Returns on equity continue to be high

Kenya: Trends in Private Credit and Deposits
(annual real growth, %)



Sources: CBK and staff calculations.

Kenya: Trends in Banks' Lending Rate Spreads
(annualized monthly averages, %)



Sources: CBK, Staff calculations

(on average about 30 percent) and banking spreads continued their slow decline. Exposures of banks to foreign exchange risk continue to be limited, with a net foreign exchange open position of 3.3 percent of banks' core capital as of end-June 2015.[3] Lending by banks in foreign currency is moderate (at about 24 percent of total bank lending as of end-June). Nevertheless, limited data on external corporate borrowing hampers the assessment of balance-sheet risks from foreign exchange exposure.

PROGRAM PERFORMANCE

7. Program implementation has been mixed:

- **Quantitative targets**. All end-March 2015 quantitative performance criteria were met. However, the continuous performance criterion on external arrears was not observed: temporary delays in debt service payments to official creditors emerged in 2014–15, reflecting a coordination failure rather than inability to pay (MEFP Table 1). The authorities are requesting waivers for the latter on the basis of the corrective measures taken (MEFP ¶12). International reserves declined following the tapering of capital flows, persistent fall in tourist arrivals, and occasional CBK interventions to contain exchange rate volatility since April. Thus, the indicative target on NIR for end-June was missed. The indicative target on CBK's NDA was also missed due to higher government domestic financing needs. All other end-June 2015 indicative targets were met.

- **Monetary policy consultation clause**. Inflation has remained within the authorities' target band since mid-2014, despite elevated food prices in early 2015 and, more recently the depreciation of the shilling. The CBK has recently taken decisive actions to tighten monetary conditions. Food prices have started to decline following good rains in April-May. On this basis, inflation is expected to remain within the authorities' range during 2015.

- **Structural reforms.** Progress in structural reform has been uneven. The government implemented some structural measures envisaged in the program, notably reporting in the 2015 Budget Policy Statement fiscal risks due to PPPs and government guarantees, and adopting a framework for county borrowing. In addition, the CBK further improved its prudential oversight of the banking sector, meeting all commitments under the MEFP. However, the submission of the CBK bill to Parliament has been delayed; the National Treasury's Debt Management Office remains considerably understaffed, although corrective actions have been taken (MEFP ¶12); and the implementation of the Treasury Single Account is behind schedule. These Structural Benchmarks have been reset (MEFP Tables 2 and 3).

[3] Kenyan prudential guidelines limit banks' net foreign exchange open position to 10 percent of core capital.

POLICY DISCUSSIONS

A. Revised Macroeconomic Framework and Risks

8. **The adverse impact on Kenya's economy from higher volatility in global markets and recent terrorist attacks warrant a revision of the program's macroeconomic framework** (Tables 1-5). The tapering of capital inflows, combined with the ongoing security challenges, has put pressure on the exchange rate and reserves. The Garissa attack has reduced further tourist arrivals and contributed to higher security-related spending. Consistent with the program's envisaged policy response in case of shocks, the CBK has made use of its reserve buffer to mitigate heightened exchange rate volatility while also allowing the exchange rate to act as a shock absorber, and tightening liquidity conditions. Staff and the authorities project lower real GDP growth relative to the original program, slightly higher inflation, higher current account deficits, lower net capital inflows, and a modestly lower international reserve path in 2015 and 2016.

9. **The authorities and staff agreed that near-term risks to the outlook remain on the downside.** While the recent lifting of the travel bans to popular tourist destinations could help reverse over time the sharp drop in tourist arrivals, security risks remain a serious challenge. A deterioration of economic and financial conditions in emerging markets or in Europe, the latter a major origination market for tourism in Kenya, could adversely affect growth. Private investment could be further affected, particularly if FDI inflows for new oil exploration slow down significantly owing to depressed global oil prices. Additional external risks relate to the timing and pace of exit from unconventional monetary policy in the U.S., which could lead to rapidly rising yields, further U.S. dollar appreciation, and knock-on effects on growth in emerging and frontier economies. Such global shocks could lead to a re-pricing of Kenyan assets and the exchange rate, as well as spillover effects on exports. In the event of economic distress in East Africa, in particular South Sudan, the cross-border activities of Kenyan banks could be adversely affected.

Kenya: Revised Macroeconomic Outlook

	2014		2015		2016	
	Prog.	Act.	Prog.	Proj.	Prog.	Proj.
Real GDP growth (percent)	5.3	5.3	6.9	6.5	7.2	6.8
CPI inflation, average (percent)	6.9	6.9	5.2	6.4	5.3	5.9
CPI inflation, eop (percent)	6.0	6.0	5.4	6.4	5.1	5.3
Current account balance (percent of GDP)	-8.6	-10.4	-7.3	-9.9	-7.1	-9.8
Gross international reserves (in billions of US$)	8.0	7.9	8.4	7.5	9.2	7.6
Gross international reserves (months of imports)	4.6	4.4	4.4	3.9	4.4	3.9

Sources: Kenyan authorities and IMF staff estimates and projections.

B. Fiscal Policy: Preserving Fiscal Sustainability

10. The ongoing scaling up of public infrastructure investment is key to unlocking Kenya's growth potential. The authorities view the closing of infrastructure gaps as essential for reducing bottlenecks to trade and growth. In particular, the envisaged expansion of the transportation infrastructure and irrigation network, and the supply of alternative sources of energy, would significantly expand trade and mitigate weather-related vulnerabilities, given Kenya's high dependence on hydro-power generation and rain-fed agriculture. Consistent with these objectives and in line with program projections, development spending increased by about 2½ percent of GDP in 2014/15 relative to 2013/14 (from 6¼ to 8¾ percent of GDP), and is planned to increase by another ¾ percent of GDP in 2015/16.

11. However, maintaining fiscal sustainability requires significant efforts to mobilize additional revenue and contain current spending. Compared with the original program target for 2015/16, which would limit the overall fiscal deficit to 7.6 percent of GDP, the significant revenue shortfall noted above (1¾ percent of GDP in 2014/15), coupled with higher transfers to counties would have put additional pressures on the fiscal accounts. While the authorities intend to contain any expenditure spillovers from 2014/15 within the 2015/16 budget envelope, they agreed that without additional efforts the fiscal deficit would likely exceed the program budget targets by about 1½ percent of GDP. To curb the speed of debt accumulation and ensure the consistency of the fiscal position with a more challenging financing outlook, the authorities and staff agreed on the need for a lower deficit, supported by continued efforts to mobilize additional revenue and contain the growth of current spending.

12. Against this backdrop, the fiscal program for 2015/16 includes revenue measures of about 1 percent of GDP to contain the deficit (MEFP ¶8). Measures include higher excise taxes, and further revenue administration improvements such as the introduction of a new Single Window declaration module, and enhanced audits on the corporate sector. The revised fiscal program targets a central government deficit of 8 percent of GDP in 2015/16, which accommodates the combined impact of higher security-related spending and lower revenue due to slower GDP growth relative to the original program targets.

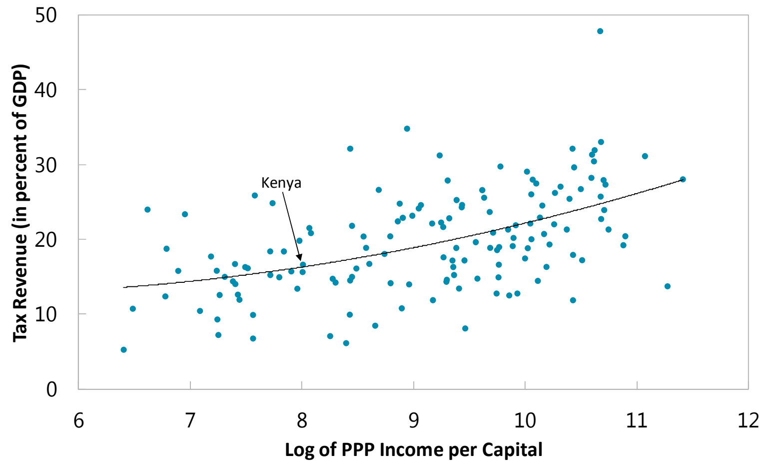
Kenya: Revenue Raising Measures for 2015-16

	Percent of GDP
Tax policy	0.8
Excise taxes	0.4
Value Added Tax	0.1
Capital Gains Tax	0.1
Real estate (rental income) tax	0.1
Other fees and charges	0.1
Revenue administration	0.2
Total	1.0

Source: Kenyan authorities.

13. The authorities and staff agreed to bring the fiscal deficit on a path broadly consistent with the original program, targeting an overall deficit of about 4 percent of GDP in 2018/19. Such a strategy would help avoid potential financial crowding out of private sector activities, and contribute to a more balanced policy mix helping to better maintain aggregate demand in line with external financing conditions. Despite the higher public debt resulting from the revised medium-term fiscal path (Tables 2a-d), public sector debt dynamics remain sustainable (see Debt Sustainability Analysis Annex). The authorities intend to reduce public debt in PV terms below 45 percent of GDP in the medium term (MEFP ¶6). This will require additional fiscal efforts in the outer years. In this context, the authorities noted that their ongoing efforts to improve tax administration, including the significant number of taxpayers registered in the online tax payment system (iTax), will increase efficiency of tax collection and ensure better compliance with the tax laws.[4] They also reiterated their commitment to persevere with efforts underway aimed at rationalizing the size of government, streamlining pay and allowances for civil servants, and reducing budgetary transfers for recurrent spending to non-commercial state entities. Staff views Kenya's revenue collection as broadly comparable to that of countries with similar income levels. Therefore, creating fiscal space for the ambitious program of infrastructure spending may require further tax revenue efforts over the medium term, especially to reduce tax expenditures which amount to an estimated 2-3 percent of GDP per year.

Relative Tax Yields 1/



Sources: IMF Fiscal Monitor.
1/ Data for Kenya is for 2014/15 and for 2013 for all other countries.

C. Public Financial Management (PFM) Reforms: Mitigating Risks and Increasing Efficiency of Public Spending

14. The authorities and staff agreed on PFM reforms aimed at improving the efficiency of government spending, and strengthening expenditure control to mitigate fiscal risks.

- **Devolution** (MEFP ¶9). The authorities are taking steps to strengthen accountability and discipline in the use of devolved resources, and contain fiscal risks. In March 2015, the government adopted a framework establishing guidelines for county borrowing consistent with the PFM Act. The framework includes the following safeguards: (i) prior approval by National Treasury of all county borrowing; (ii) a limit on each county's debt (20 percent of the most recent audited revenues); and (iii) a limit on each county's debt service (15 percent of the most recent audited revenues). These safeguards effectively limit county-level indebtedness to 1 percent of

[4] Since it was launched in October 2013, a total of 1.3 million taxpayers have signed up with the iTax system. Starting from June 30, 2015, taxpayers are required to file their individual income tax returns using the iTax system.

GDP. However, the framework allows access to the CBK overdraft facility to counties, which may complicate monetary policy implementation and coordination of cash and debt management with the Treasury. Additional reforms planned for later in the year include the extension to counties of GFS-compliant consolidated financial statements by end-2015, and the adoption of a county revenue framework aimed at maintaining a business-friendly taxation environment.

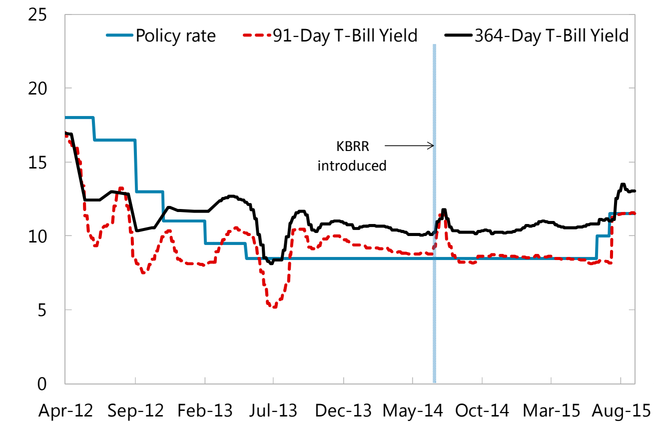
- **TSA reform** (MEFP ¶13). There has been progress in improving the efficiency of the government payment processes to lay the foundations for an upgrade in cash management practices in preparation for the full adoption of the Treasury Single Account (TSA). However, the delay in reaching a Service Level Agreement between the Treasury and the CBK governing all overdraft and interest calculations, service fees and other charges arising from their financial relations requires a resetting of the end-June 2015 structural benchmark under the program to end-September 2015.
- **Debt management** (MEFP ¶12). The authorities have adopted a preemptive approach to process debt repayments. First, they have begun to rely on their reporting systems rather than on invoices from lenders. Second, the payment process will start 30 days before the due date, to allow for internal approvals by National Treasury and Controller of Budget and timely settlement by the CBK. Third, the Debt Management Office (DMO) will elevate to the Cabinet Secretary of the National Treasury a quarterly report with all obligations coming due, in order to ensure accountability. Fourth, internal processes between the different units involved in the process will be fully automated. Fifth, there will be a significant strengthening of staffing at the DMO, with the appointment of a full-time Director General and significant strengthening of risk and compliance functions.
- **E-procurement.** The newly introduced IFMIS e-procurement, which automates all central and county government procurement processes in line with the Public Procurement and Disposal Act, is expected to entrench transparency and accountability, and to generate increased efficiency and cost savings.

D. Monetary Policy: Strengthening the Framework, Transitioning to Inflation Targeting

15. The CBK's decisive recent tightening is intended to keep inflation expectations in check (MEFP ¶16). Going forward, staff and the authorities agreed that economic and financial uncertainties warrant continued caution in the monetary policy stance (Figures 2 and 6). The CBK intends to sell foreign exchange only to smooth excessive volatility in the foreign exchange market.

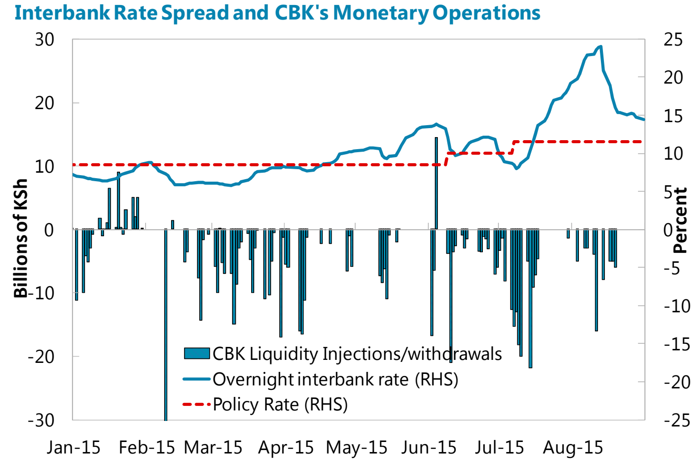
16. Market yields have started to reflect the recent tightening of monetary policy. Since the introduction of the Kenya Bank Reference Rate (KBRR) in mid-2014), the 91-day T-Bill rate has remained low relative to the CBR, weakening the transmission along the yield curve.[5] In addition, interbank rates continue to deviate substantially from the policy rate. Absolute spreads averaged 265 basis points in 2015 through end-August. Among other factors, this reflects unpredictable fiscal flows, compounded by the fast-roll out of devolution. However, it also reflects the lack of instruments (until recently) for maturities demanded by the market, coupled with rapid swings in monetary operations from accommodating government borrowing to mopping up as much liquidity as possible at times of high volatility. Although the National Treasury produces daily cash reports and has shared these with the CBK since the beginning of 2015, the authorities delayed decisions on technical modalities of TSA implementation, partly because of a longer-than-expected transition to internet banking by spending units. Going forward, upgrading the coordination between the CBK and National Treasury, improving cash and debt management, rationalizing access to the CBK's overdraft facility and fully implementing the Treasury Single Account are expected to help align the interbank rates more closely to the CBR.

Kenya: Policy Rate and T-bill Auction Yields



Sources: Kenyan authorities and staff calculations.

Interbank Rate Spread and CBK's Monetary Operations

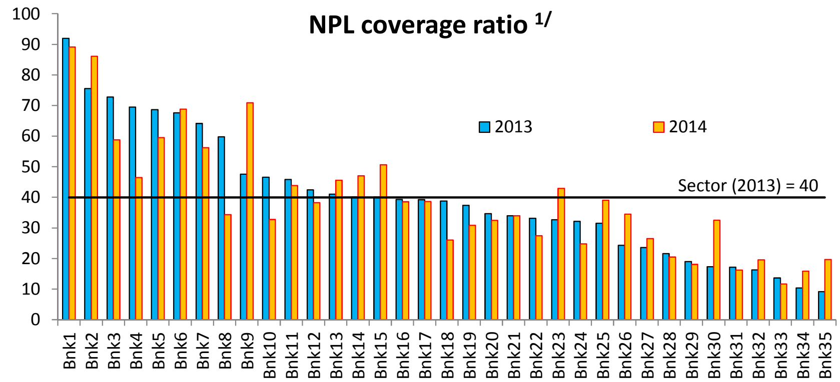


Sources: CBK and staff calculations.

[5] See the 2014 Article IV Consultation with Kenya (IMF Country Report No. 14/302).

E. Financial Sector: Enhancing Oversight to Mitigate Financial Stability Risks

17. The authorities' efforts to improve enforcement of prudential guidelines revised in 2013 are paying off. Three banks have already submitted capital restoration plans to the supervisors to comply with the higher capital requirements of 2.5 percentage points. On-site supervision efforts have intensified, and the CBK has asked banks to reclassify some of their loans and increase provisioning for credit losses (KSh 2.4 billion). These efforts, which are continuing, have already led to a higher loan loss provisioning coverage ratio for several banks (Figure 6). The authorities have also recently put on liquidation a very small bank (0.1 percent of bank assets) in distress. While the banking sector remains sound, recent credit and market risk events have underscored the importance of ensuring sound lending standards, compliance with prudential guidelines, adequate provisioning, and sufficient buffers against losses.[6]



Source: CBK and IMF staff estimates.
1/ Loan loss provision for NPLs, as a share of NPLs, in percentage points.

18. Several initiatives to further improve oversight of the banking industry are in train. In line with the program, the CBK has taken important measures, including: (i) the design of an action plan to improve the CBK stress testing framework, with a pilot stress test of all banks to be conducted by June 2016; (ii) the introduction of a monthly survey on banks loans restructuring, with the survey results to provide relevant information for stress testing; (iii) the expansion of supervisory colleges to all relevant banking groups operating in more than two countries outside Kenya; (iv) the assessment of host supervisors, with the first one for Uganda successfully completed, with East AFRITAC TA support; and (v) the evaluation of macro-prudential policy options aimed at limiting banks' exposure to foreign exchange risk. The authorities are also taking steps to enhance their AML/CFT supervision. They are encouraged to continue their efforts and to focus on implementation, in line with recent LEG TA recommendations.

[6] A legacy payment delay by the government to contractors during 2013 that were cleared in mid-2014 has led some companies to delay their payments to the banks and other suppliers. The recent shilling depreciation may also put pressure on some borrowers with loans in foreign currency.

F. Improving Data Provision and Quality: Supporting Policy Making

19. The authorities are making progress on their commitment to improve macroeconomic statistics, especially on the external sector. In its April 2015 Economic Survey publication, the Kenya National Bureau of Statistics (KNBS) published a BPM6-compliant balance of payments statement and also first consolidated GFS estimates for the general government sector for 2013/14 and its subsectors. Moreover Foreign Investment Survey data for 2013 and earlier years are expected to be published in September 2015, and used to publish a BPM6-compliant balance of payments fully integrated with an International Investment Position statement in the 2016 Economic Survey (May). The KNBS also recently released the 2012/13 Kenya National Housing Survey results, including a first-ever official unemployment estimate for Kenya (8.1 percent).

PROGRAM MODALITIES

20. Staff proposes revisions to quantitative targets and resetting of three structural benchmarks that were not met (MEFP Tables 1-3). The proposed revisions to end-September 2015 performance criteria and end-December 2015 indicative targets take into account corrective fiscal measures; and the authorities' use of reserve buffers since April 2015 to mitigate exchange rate volatility and subsequent tightening of monetary policy. Staff believes that the structural reforms envisaged in the program remain appropriate, and proposes to reset delayed reforms to ensure their full implementation.

21. Consistent with the new debt limits policy, staff proposes to discontinue monitoring the program against a performance criterion on contracting and guaranteeing of non-concessional external public debt. This proposal reflects Kenya's low risk of external debt distress, and the recent adoption by the authorities of regulations that limit the scope for county borrowing (MEFP ¶9). The program retains conditionality on the primary fiscal balance (performance criterion) and a ceiling on all guarantees issued by the central government (indicative target).

22. Safeguards assessment. The CBK safeguards assessment report was finalized in May 2015. The report's main conclusions were that the CBK continues to maintain effective operational controls, but that the lapse in March 2015 of several Board members terms and resulting lack of a functioning Board poses operational and governance risks for the bank. In addition, the report noted that the draft CBK bill broadly addresses issues identified in prior safeguards assessments and strengthens the bank's autonomy; however, additional refinements were proposed primarily related to the Board appointment process. The CBK also faces the challenge of implementing the 2010 Constitutional requirement to replace the entire stock of currency and the safeguards report recommended that the bank develop an action plan and communication strategy for the issuance of the new currency.

A. Capacity to Repay the Fund and Risks to the Program

23. Kenya retains a strong capacity to repay the Fund (Table 7). The Debt Sustainability Analysis update (see Annex) finds that even assuming full drawings under the precautionary program, Kenya remains at low risk of external debt distress, notwithstanding a modest deterioration in the medium-term public debt trajectory. Kenya's capacity to repay would be further enhanced once the recent sizeable oil and gas discoveries would come on stream.

24. The main risks to the program are: (i) political instability eroding program ownership; (ii) further tapering of flows leading to financing constraints; (iii) strains in the relations between the central government and counties that could weaken fiscal discipline; (iv) weaker-than-expected improvements in revenue administration that could lead to further fiscal slippages; (v) Kenyan banks' expansion of domestic credit and cross-border activities that outpace ongoing efforts to upgrade prudential oversight capabilities; (vi) an unmonitored buildup of external vulnerabilities in the private sector before data gaps are addressed; and (vii) economic growth that falls significantly below program expectations.

25. If downside risks materialize, further policy response may be needed. The flexible exchange rate would continue to act as a shock-absorber, though some further monetary policy tightening may be needed to prevent second-round effects on inflation. The room for fiscal policy to adjust for demand management purposes remains constrained in the near term until new revenue measures bear fruit. However, if the magnitude of the shocks were to make financing constraints binding, fiscal policy would have to adjust more quickly.

STAFF APPRAISAL

26. Kenya's economic performance has remained satisfactory despite external and security shocks. Higher private consumption and public infrastructure investment is expected to support real GDP growth this year despite recent adverse external and domestic developments. But downside risks have increased. Rising volatility in global markets has contributed to some shilling depreciation, adversely affecting inflation expectations. The recent terrorist attack at Garissa is another shock to the already weakened tourism sector, although the recent lifting of travel bans to popular tourist destinations in Kenya should reverse over time the sharp drop in tourist arrivals. Uncertainties from monetary policy normalization in the United States and weaker global growth may also have an adverse impact.

27. Against this setting, the fiscal program for 2015/16 seeks to balance multiple objectives: addressing persistent security challenges and infrastructure bottlenecks while preserving macroeconomic stability. The increase in development spending is supporting infrastructure investments and expanding the provision of health and education services, which are needed to underpin stronger economic growth. At the same time, containing the fiscal deficit is important to moderate the recent rise in public debt—and eventually reverse it—and avoid excess demand pressures and support a balanced policy mix, especially in light of the high and persistent current account deficit. The authorities' efforts to reduce the fiscal deficit are thus welcome. In light of ongoing volatility in global markets, staff encourages the authorities to consider contingency plans, to help mitigate possible risks stemming from tighter external financing conditions.

28. Reforms to improve public financial management need to be resolutely implemented. The authorities have taken a number of steps aimed at strengthening expenditure control and improving the efficiency of public spending, including the adoption of limits and safeguards for county borrowing consistent with the PFM Act, and the expansion of e-procurement to all spending units. However, counties' access to the CBK overdraft facility may complicate monetary policy implementation and coordination of cash and debt management with the Treasury. Over the coming months the plans to strengthen capacity at the National Treasury's Debt Management Office and to complete the introduction of the Treasury Single Account should be decisively implemented. These are critical reforms to avoid a reemergence of external payment arrears, and to improve the government's cash and domestic debt management. These reforms would also help monetary policy implementation by mitigating volatility in government flows, and will reduce government's borrowing costs.

29. Staff welcomes the CBK's decisive steps to tighten monetary policy. Inflation is within the authorities' target range, but remains at the upper bound of this range. In addition, while the early 2015 spike in food prices is likely to be reversed following recent good rains, the recent shilling depreciation could lead to renewed pressure on domestic prices. This situation fully justifies the pro-active approach taken by the CBK aimed at anchoring inflation expectations. Staff supports the CBK's commitment to continue refraining from selling reserves except for smoothing excessive volatility in the foreign exchange market. The recent broadening of the set of instruments by introducing 3-day repos will help improve liquidity management, strengthen monetary policy transmission, and enhance policy credibility.

30. The risks associated with balance-sheet effects of the recent shilling weakening and the rapid expansion of Kenyan banks abroad warrant close oversight. To that end, the ongoing improvements in the CBK's stress testing framework and the establishment of supervisory colleges for banking groups operating outside Kenya are welcome steps, as are the renewed efforts to ensure that bank provisioning keeps pace with NPLs so as to maintain adequate bank capital buffers. While foreign-currency lending by banks has remained moderate, the recent exchange rate volatility puts a premium on improving monitoring and information on corporate borrowing from abroad in order to gauge the balance-sheet implications of foreign exchange risk exposure.

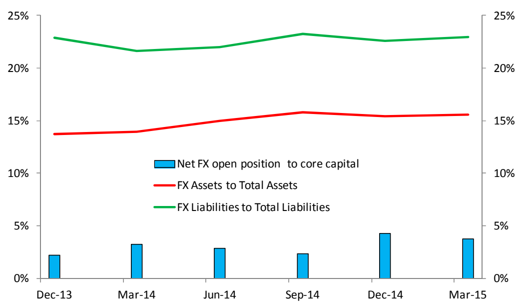
31. Continued efforts are needed over the medium term to create fiscal space for development priorities while maintaining public debt sustainability and mitigating reliance on external savings. The key priority should be to continue mobilizing additional revenue to preserve room for critical programs, including key infrastructure projects, orderly devolution, a strengthened social safety net, and to mitigate demand pressures. Efforts to contain current spending, especially wage growth and reducing non-productive transfers to non-commercial state entities, will also be essential. Over the medium term, it is important to continue to reduce the fiscal deficit to a sustainable level to avoid the risk of financing constraints becoming binding in the presence of tapering inflows coupled with high and persistent external current account deficits. To that end, staff welcomes the authorities' commitment to bring public debt in PV terms down below 45 percent of GDP in the medium term, in line with the original program's anchor. Their plans to rationalize personnel at the national and county levels are an important element towards this strategy. Staff encourages the authorities to identify additional measures to reinforce the strategy, including by determining and mitigating factors impairing a better VAT performance, using e-procurement to reduce cost overruns, and promptly adopting recommendations of the Salary and Remunerations Commission regarding a reform of salary scales.

32. Staff supports completion of the first review under the precautionary SBA- and SCF arrangements. The authorities' economic program supported by the SBA- and SCF arrangements maintains a sustainable public debt position while addressing infrastructure needs, and a prudent monetary policy stance while strengthening financial sector oversight. Staff supports the authorities' request for waivers under both arrangements for the non-observance of the performance criterion on external arrears. This breach was temporary and did not affect the thrust of policies, and the authorities have taken steps to correct the staffing and coordination problems behind the late payments. Staff recommends completion of the first review under the SBA- and SCF arrangements, and approval of modifications to program targets including end-September 2015 performance criteria.

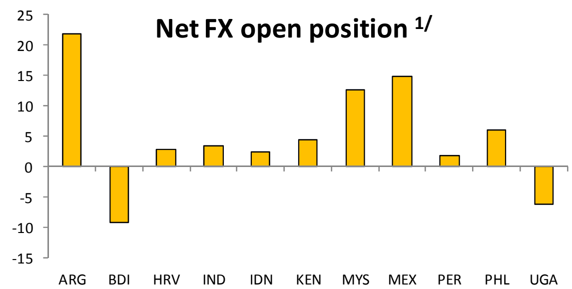
Box 1. Kenyan Banks' Exposure to Foreign Exchange (FX) Risk

CBK has a stringent limit on net FX open position (10 percent of core capital, including off balance sheet exposures) and it has encouraged banks operating in Kenya to restrict FX lending to companies and individuals that are naturally hedged against FX risk.

Kenyan banks' exposure to FX risk remains limited. About 16 percent of total assets and 23 percent of total liabilities are denominated in foreign currency, resulting in a net FX open position of 2.9 percent relative to total banks' capital, which compares well with peer countries (Table 5).

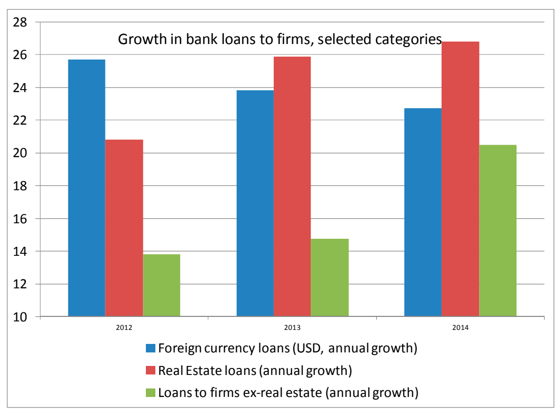


Source: CBK.



Source: IMF.
1/ As percent of capital, as of end-2014.

However, there are signs that the corporate sector foreign currency exposure is increasing. The share of foreign currency loans to firms relative to total loans to firms has increased to 32 percent in 2014 from 26 percent three years before, despite relatively low rates of export growth. Anecdotal evidence suggests that foreign currency loans are associated with growth in the upper-end real estate market in recent years. Both bank loans denominated in U.S. dollars and lending to real estate have been increasing above average for the past three years.

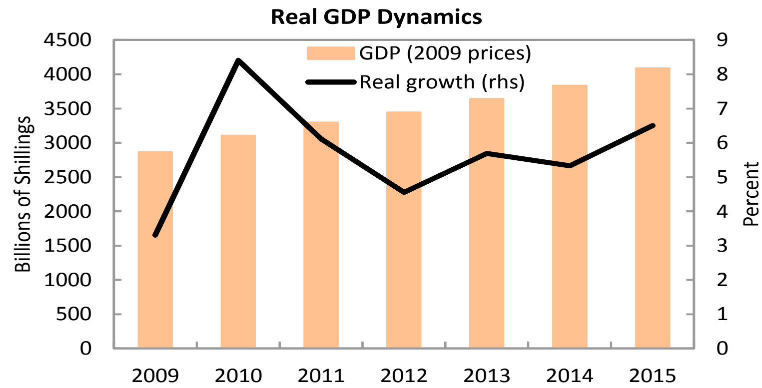


Macro-prudential policies could help address emerging foreign currency risks. At present, there are no formal regulatory limits on foreign currency lending, nor higher weights on such lending to estimate capital to risk-weighted assets ratios and higher provisioning requirements, in contrast to the practice in many countries.[1] The introduction of such policies could help prevent currency mismatches at the firm level.

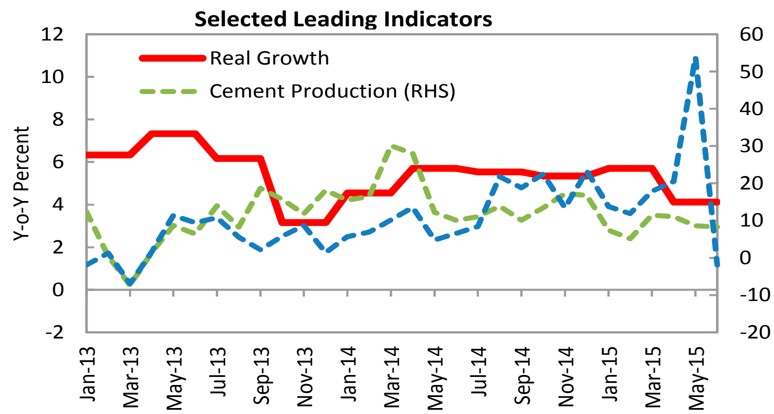
[1] Colombia, Jordan, Romania, South Korea, and Uganda among others.

Figure 1. Kenya: Real Sector

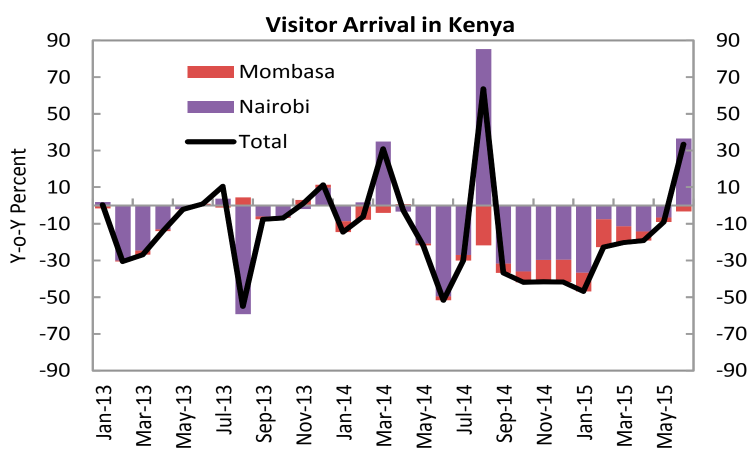
GDP growth has been robust to date...



...and high frequency indicators suggest continued momentum...

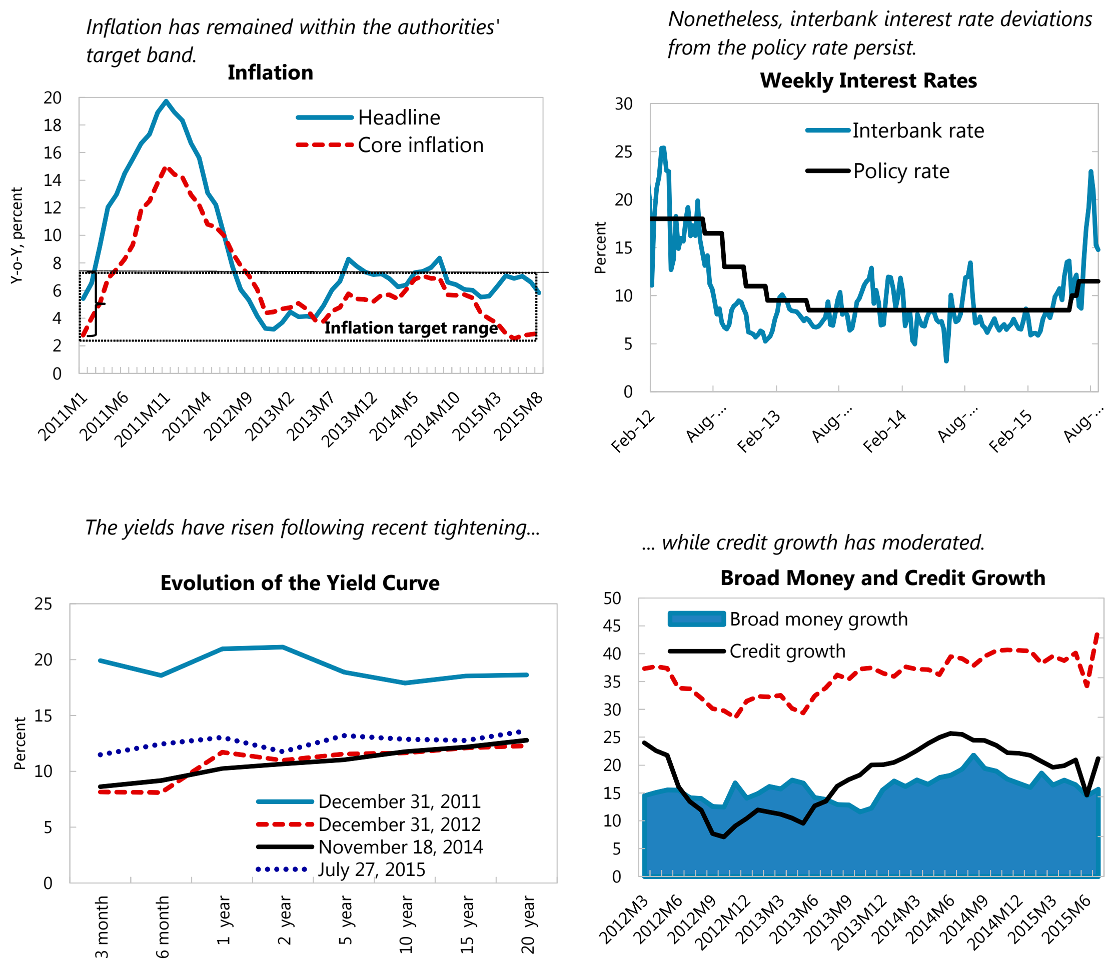


...with visitor arrivals starting to recover.



Source: Kenyan authorities and IMF staff estimates.

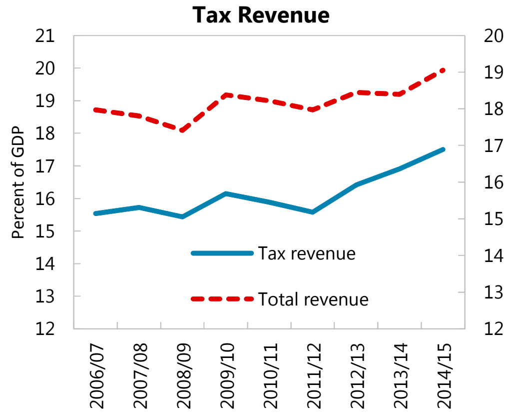
Figure 2. Kenya: Monetary Sector



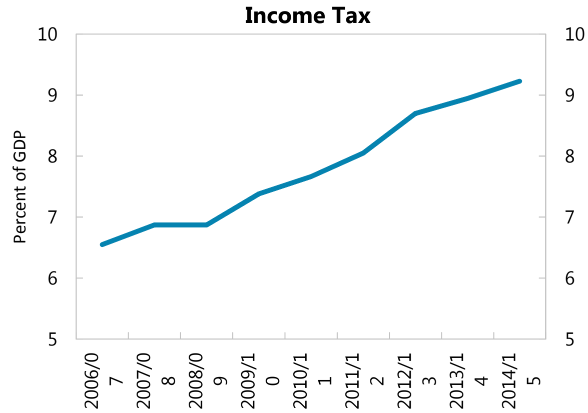
Source: Bloomberg; Kenyan authorities and IMF staff estimates.

Figure 3. Kenya: Fiscal Operations[1]

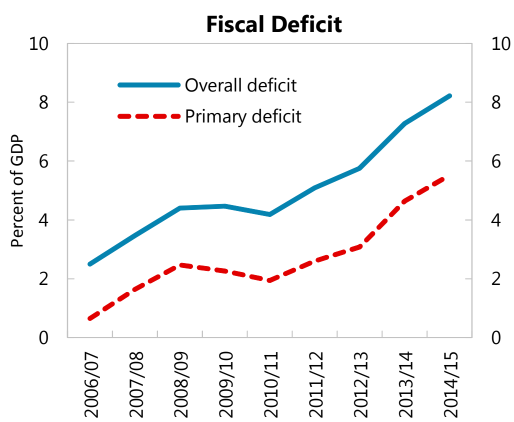
Tax collections have been increasing ...



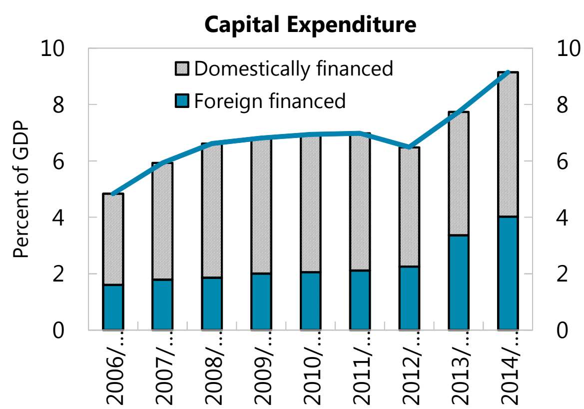
... reflecting strong yield from income taxes.



The fiscal deficit has increased....



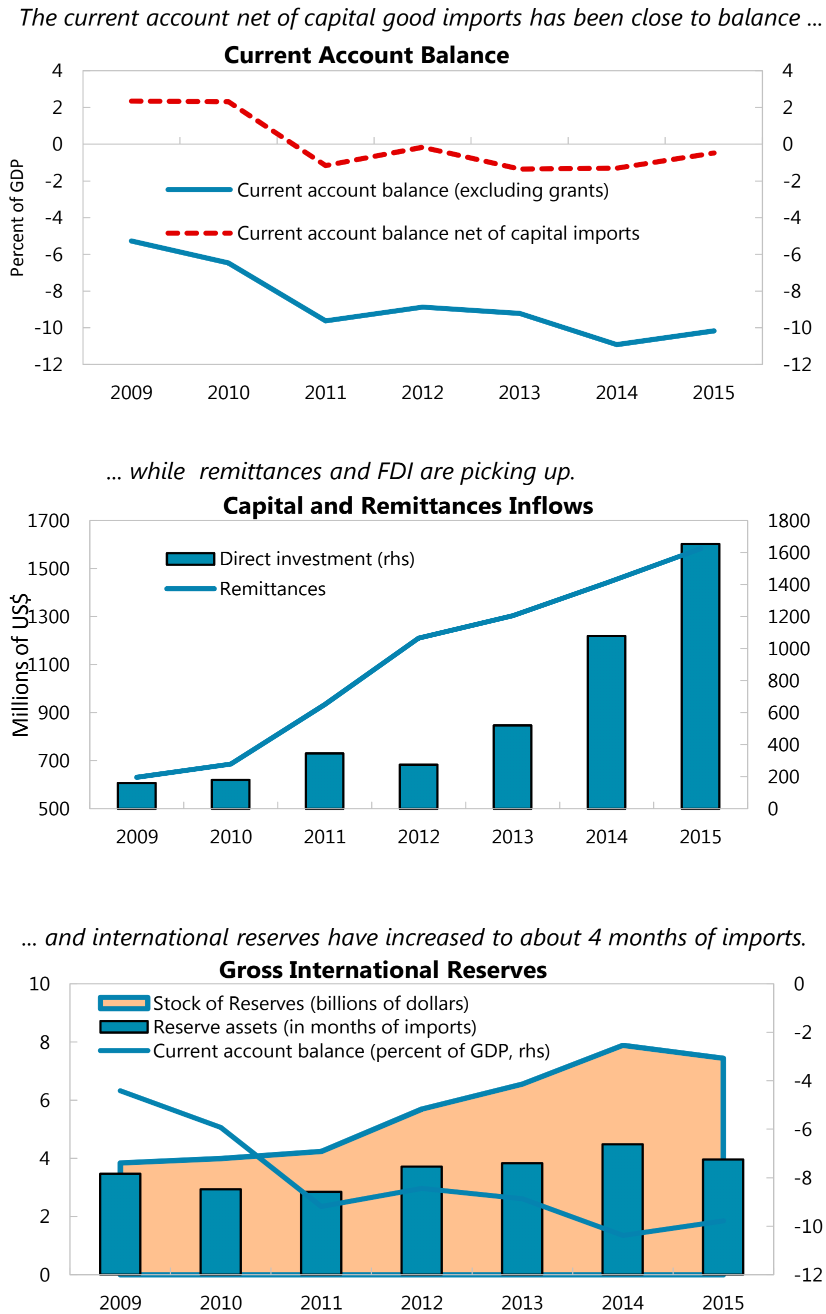
...mainly due to a scaling up in infrastructure spending.



Source: Kenyan authorities and IMF staff estimates.

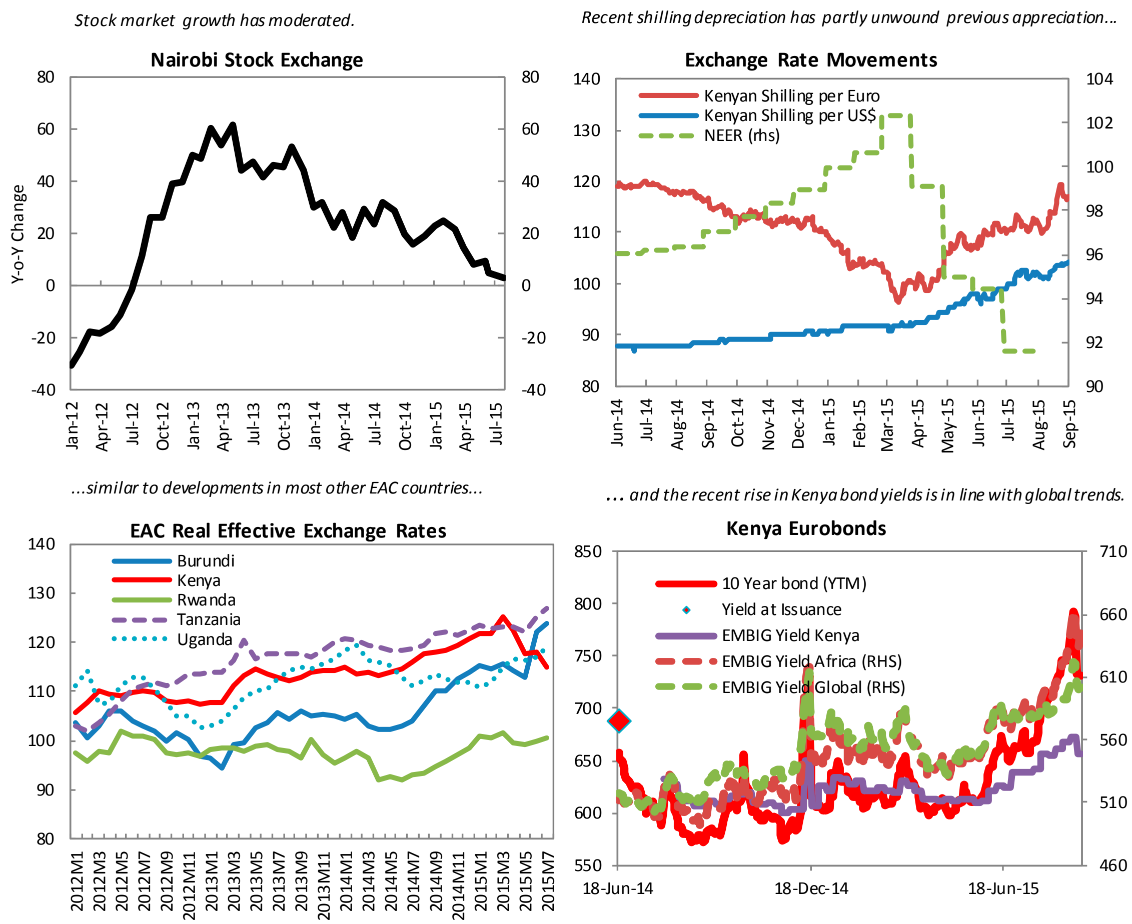
[1] For years 2012/13 and 2013/14, the charts are referring to general government.

Figure 4. Kenya External Sector



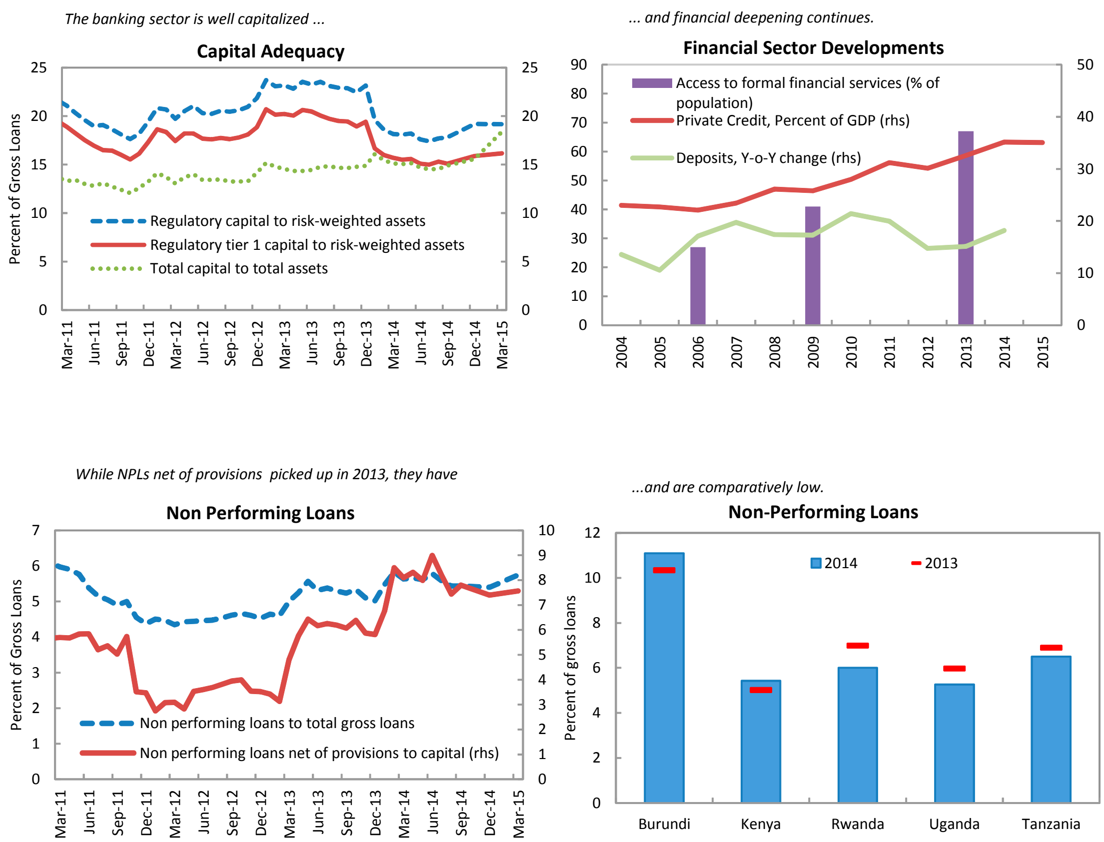
Source: Kenyan authorities and IMF staff estimates.

Figure 5. Kenya: Financial Developments



Source: Bloomberg; IMF staff estimates.

Figure 6. Kenya: Financial Sector



Source: CBK and IMF staff estimates.

Table 1a. Kenya: Selected Economic Indicators, 2013/14–2018/19

	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19
	Act.	Prog.	Est.	Prog.	Proj.		Proj.	
	(Annual percentage change, unless otherwise indicated)							
Output, prices, and exchange rate								
Real GDP	5.5	6.1	5.9	7.0	6.7	6.9	7.0	7.0
GDP deflator	6.3	6.6	7.1	6.5	6.5	6.3	6.1	5.7
CPI (period average)	7.1	6.0	6.6	5.2	6.3	5.4	5.0	5.0
CPI (end of period)	7.4	5.1	7.0	5.3	6.0	5.0	5.0	5.0
Core inflation (period average) [2]	6.1	5.0	3.1	5.3	5.6	5.1	5.0	5.0
Exports volume	-1.4	6.4	6.5	9.7	5.6	6.3	8.5	8.5
Imports volume	3.0	14.7	8.4	10.5	9.6	7.4	9.4	8.7
Exchange rate (Kenyan shilling/US$)	87.2	.	98.6	.	.	.	.	.
Real effective exchange rate (depreciation, -)	0.9	.	2.6	.	.	.	.	.
Money and credit								
Broad money (M3)	18.2	13.9	14.5	19.8	17.2	18.0	17.8	15.0
Reserve money	12.6	11.3	9.1	14.9	15.8	16.3	15.6	13.4
Credit to non-government sector	25.7	17.7	14.6	15.6	14.5	13.2	13.3	15.0
Policy rate	8.5	.	10.0	.	.	.	.	.
M3/GDP (percent)	42.7	42.9	43.1	45.1	44.4	46.1	47.9	48.7
NPLs (percent of total gross loans)	5.8	.	.	.	.	.	.	.
	(Percent of GDP, unless otherwise indicated)							
Central government budget								
Total revenue and grants	19.9	21.1	19.4	21.8	21.1	21.4	21.6	21.8
Tax revenues	16.9	17.9	16.8	18.7	18.0	18.4	18.5	18.7
Non-tax revenues	2.4	2.7	2.1	2.7	2.7	2.7	2.7	2.7
Grants	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Expenditure	25.7	28.7	27.9	29.5	29.1	28.2	27.1	26.8
Current	19.4	19.5	18.9	19.4	19.7	19.1	18.7	18.5
Capital	6.3	8.9	8.9	9.9	9.3	9.1	8.4	8.3
Unidentified measures	0.0	0.0	0.0	0.0	0.0	0.6	0.9	0.9
Primary balance	-3.5	-5.1	-5.5	-5.1	-5.2	-3.5	-1.9	-1.7
Excluding SGR related spending	-3.5	-3.7	-3.3	-3.0	-3.4	-2.4	-1.9	-1.7
Overall balance	-5.9	-7.6	-8.4	-7.6	-8.0	-6.2	-4.5	-4.1
Excluding SGR related spending	-5.9	-6.2	-6.2	-5.5	-6.2	-5.1	-4.5	-4.1
Excluding grants	-6.4	-8.1	-9.0	-8.1	-8.4	-6.6	-4.9	-4.5
Net domestic borrowing	1.2	4.3	4.3	3.2	3.5	2.7	2.0	1.5
Public debt [3]								
Public gross nominal debt	47.1	49.8	51.2	50.8	53.1	53.6	52.4	51.1
Public net nominal debt	43.1	46.4	47.9	48.8	51.0	51.6	50.4	49.2
of which : external public debt	21.7	23.2	24.7	25.2	27.1	27.8	27.4	27.3
Public gross debt, PV	46.2	44.9	47.2	45.6	48.3	47.7	46.6	45.2
Public net debt, PV	42.1	41.5	43.8	43.5	46.2	45.7	44.6	43.2
Gross domestic debt	25.5	26.6	26.6	25.6	26.1	25.8	25.0	23.8
Investment and saving								
Investment	20.8	24.7	23.9	26.1	25.3	25.5	25.0	25.0
General government	7.0	9.8	9.8	11.1	10.5	10.6	10.0	10.0
Nongovernment	13.8	15.0	14.2	15.1	14.8	15.0	15.0	15.0
Saving	11.9	16.7	13.0	18.9	14.6	17.0	17.8	18.1
General government	1.7	2.4	1.5	3.2	2.6	4.1	5.2	5.5
Nongovernment	10.2	14.3	11.5	15.7	12.0	12.9	12.6	12.5
External sector								
Exports (goods and services)	19.0	19.2	17.9	19.0	18.2	17.8	17.6	17.4
Imports (goods and services)	32.9	31.8	33.6	30.9	33.9	31.5	30.0	29.5
Current account balance (including grants)	-8.9	-8.1	-11.0	-7.3	-10.7	-8.6	-7.2	-6.9
Gross international reserves								
In billions of US$	8.6	7.8	7.1	8.7	7.3	7.9	8.8	9.9
In months of next year imports	4.9	4.3	3.8	4.3	3.8	3.9	4.0	4.1
Memorandum items:								
GDP at current market prices								
Billion of Kenyan shillings	5,044	5,713	5,723	6,512	6,502	7,390	8,390	9,489
US$ billion	58.0	63.9	62.2	70.9	66.1	72.8	81.0	89.8
GDP per capita (nominal US$)	1,368	1,468	1,429	1,586	1,479	1,587	1,721	1,859

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal years are from July 1 to June 30.

[2] Excluding food and fuel.

[3] Excludes guaranteed debt and other contingent liabilities.

Table 1b. Kenya: Selected Economic Indicators, 2014–2019

	2014		2015		2016		2017	2018	2019
	Prog.	Act.	Prog.	Proj.	Prog.	Proj.		Proj.	
	(Annual percentage change, unless otherwise indicated)								
Output, prices, and exchange rate									
Real GDP	5.3	5.3	6.9	6.5	7.2	6.8	7.0	7.0	7.0
GDP deflator	6.7	7.5	6.6	6.7	6.5	6.3	6.3	5.9	5.5
CPI (period average)	6.9	6.9	5.2	6.4	5.3	5.9	5.1	5.0	5.0
CPI (end of period)	6.0	6.0	5.4	6.4	5.1	5.3	5.0	5.0	5.0
Core inflation (period average) [1]	6.1	6.1	5.0	3.1	5.3	5.6	5.1	5.0	5.0
Exports volume	3.3	5.8	9.4	7.1	10.0	4.1	8.5	8.6	8.3
Imports volume	8.0	6.5	14.4	12.9	10.1	6.1	1.4	5.8	7.0
Exchange rate (Kenyan shilling/US$)	90.6	87.8	.	.	.	.	.	.	.
Real effective exchange rate (depreciation, -)	.	5.7	.	.	.	.	.	.	.
Money and credit									
Broad money (M3)	16.0	16.7	15.1	15.7	17.2	15.7	19.1	16.0	14.7
Reserve money	7.2	18.4	19.1	13.7	16.0	13.5	16.5	14.2	12.7
Credit to non-government sector	21.8	22.2	19.1	13.3	12.8	14.0	13.0	14.3	14.3
Policy rate	8.5	8.5	.	.	.	.	.	.	.
M3/GDP (percent)	43.3	43.5	43.8	44.3	45.0	45.1	47.2	48.3	49.1
NPLs (percent of total gross loans)	.	5.4	.	.	.	.	.	.	.
	(Percent of GDP, unless otherwise indicated)								
Central government budget									
Total revenue and grants	20.5	19.6	21.5	20.3	22.2	21.3	21.5	21.7	21.9
Tax revenues	17.4	16.8	18.3	17.4	19.1	18.2	18.5	18.6	18.8
Non-tax revenues	2.6	2.3	2.7	2.4	2.8	2.7	2.7	2.7	2.7
Grants	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Expenditure	27.2	26.8	29.1	28.5	28.6	28.7	27.6	26.9	26.5
Current	19.5	19.1	19.5	19.3	19.2	19.4	18.9	18.6	18.3
Capital	7.6	7.6	9.4	9.1	9.1	9.2	8.7	8.3	8.2
Unidentified measures	0.0	0.0	0.0	0.0	0.0	0.3	0.8	0.9	0.7
Primary balance	-4.3	-4.5	-5.1	-5.4	-3.8	-4.4	-2.7	-1.8	-1.8
Excluding SGR related spending	-5.0	-3.4	-3.7	-3.4	-1.7	-2.9	-2.2	-1.4	-1.7
Overall balance	-6.7	-7.2	-7.6	-8.2	-6.3	-7.1	-5.3	-4.3	-4.2
Excluding SGR related spending	-7.4	-6.1	-6.2	-6.2	-4.2	-5.6	-4.8	-3.9	-4.0
Excluding grants	-7.2	-7.7	-8.1	-8.7	-6.7	-7.5	-5.7	-4.7	-4.5
Net domestic borrowing	2.8	2.8	3.8	3.9	2.7	3.1	2.4	1.8	1.4
Public debt [2]									
Public gross nominal debt	48.4	49.2	50.3	52.2	50.6	53.4	53.0	51.8	50.5
Public net nominal debt	44.7	45.5	47.6	49.5	48.5	51.3	51.0	49.8	48.5
of which : external public debt	22.4	23.2	24.2	25.9	25.3	27.4	27.6	27.4	27.2
Public gross debt, PV	44.2	46.7	45.5	47.7	45.7	48.0	47.3	46.0	44.4
Public net debt, PV	40.5	43.0	42.8	45.0	43.6	45.9	45.3	44.0	42.5
Gross domestic debt	26.0	26.0	26.1	26.3	25.3	26.0	25.4	24.4	23.3
Investment and saving [3]									
Investment	22.7	22.2	24.4	24.9	24.3	25.5	25.3	25.0	25.0
General government	7.7	8.5	9.5	10.2	9.1	10.6	10.3	10.0	9.9
Nongovernment	15.0	13.6	15.0	14.7	15.2	15.0	15.0	15.0	15.1
Saving	14.1	11.8	17.2	15.1	17.1	15.9	17.9	18.1	18.2
General government	0.5	1.6	1.5	2.1	2.6	3.4	4.7	5.4	5.6
Nongovernment	13.6	10.2	15.7	13.0	14.6	12.4	13.2	12.7	12.6
External sector									
Exports (goods and services)	19.3	18.2	19.1	18.3	19.0	17.9	17.7	17.5	17.3
Imports (goods and services)	-32.6	-33.7	-31.0	-33.4	-30.8	-32.8	-30.3	-29.7	-29.3
Current account balance (including grants)	-8.6	-10.4	-7.3	-9.8	-7.1	-9.7	-7.4	-6.9	-6.8
Gross international reserves									
In billions of US$	8.0	7.9	8.4	7.5	9.2	7.6	8.2	9.2	10.3
In months of next year imports	4.6	4.5	4.4	4.0	4.4	3.9	3.9	4.0	4.1
Memorandum items:									
GDP at current market prices									
Billion of Kenyan shillings	5,343	5,358	6,084	6,088	6,941	6,915	7,865	8,916	10,063
US$ billion	60.9	61.0	66.9	63.3	74.8	68.9	76.8	85.3	94.3
GDP per capita (nominal US$)	1,418	1,422	1,519	1,436	1,654	1,522	1,653	1,789	1,929

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Excluding food and fuel.

[2] Excludes guaranteed debt and other contingent liabilities.

Table 2a. Kenya: Central Government Financial Operations, 2013/14–2018/19[1]

	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19
	Act.	Prog.	Prelim.	Prog.	Proj.	Proj.	Proj.	Proj.
	(in billions of Kenyan Shillings, unless otherwise indicated)							
Revenues and grants	**1,001.4**	**1,205.7**	**1,111.6**	**1,420.3**	**1,372.7**	**1,584.9**	**1,815.7**	**2,073.3**
Revenue	**974.4**	**1,175.3**	**1,082.4**	**1,392.6**	**1,345.1**	**1,555.0**	**1,782.8**	**2,038.2**
Tax revenue	851.8	1,021.3	959.4	1,216.4	1,171.1	1,357.5	1,555.5	1,777.6
Income tax	449.6	541.1	508.6	647.0	614.8	711.5	825.9	949.3
Import duty (net)	67.6	70.2	74.0	70.3	86.0	94.0	103.2	113.4
Excise duty	102.0	120.6	115.9	142.4	153.5	183.4	208.6	237.2
Value-added tax	232.6	289.4	260.9	356.7	316.9	368.6	417.8	477.7
Nontax revenue	122.6	154.0	123.0	176.1	174.0	197.5	227.2	260.5
Investment income	10.2	18.6	13.5	21.2	21.1	24.0	27.2	30.8
Other	57.0	64.5	57.6	73.5	70.4	80.9	92.7	106.4
Ministerial and Departmental Fees (AIA)	35.7	48.0	33.5	58.5	58.5	66.5	75.5	85.4
Railway Levy	19.7	22.9	18.4	23.0	24.0	26.2	31.8	37.9
Grants	**27.0**	**30.5**	**29.2**	**27.7**	**27.6**	**29.9**	**33.0**	**35.1**
Project grants	21.7	23.2	24.2	20.4	19.9	22.6	25.7	29.0
Program grants	4.7	6.1	3.8	6.1	6.4	6.1	6.1	6.1
Expenditure and net lending	**1,297.8**	**1,637.5**	**1,595.1**	**1,918.0**	**1,889.6**	**2,087.4**	**2,269.8**	**2,544.4**
Recurrent expenditure	**978.4**	**1,124.4**	**1,075.9**	**1,272.8**	**1,268.0**	**1,402.2**	**1,552.8**	**1,739.0**
Transfer to counties	169.4	229.3	229.3	245.5	264.2	288.8	318.7	360.0
Interest payments	132.0	141.8	151.4	164.0	176.3	198.5	213.5	227.9
Domestic interest	119.2	122.9	122.1	132.1	131.5	138.1	142.6	147.0
Foreign interest due	12.8	18.9	29.3	31.9	44.8	60.4	70.9	80.9
Wages and benefits (civil service)	281.2	303.3	298.0	330.2	328.7	349.4	388.4	428.8
Pensions, etc.	30.2	43.6	38.2	58.2	43.4	53.8	64.3	77.0
Defense and NSIS	93.8	114.0	93.7	132.0	112.5	123.3	140.0	161.3
Other	248.0	283.0	264.3	331.9	337.2	388.4	428.0	484.0
of which: Social Spending	--	53.3	53.3	68.3	68.1	83.9	106.3	120.7
Development and net lending	**319.3**	**513.1**	**513.8**	**645.2**	**608.6**	**673.3**	**704.4**	**792.6**
Domestically financed	198.5	288.0	269.3	333.2	353.7	394.8	468.1	514.6
Foreign financed	118.6	222.2	242.4	309.1	247.7	276.1	233.4	274.8
of which: SGR project	0.0	80.1	123.5	140.1	118.2	83.9	0.0	0.0
Net lending	2.2	2.9	2.1	3.0	7.2	2.5	2.8	3.2
Overall balance excluding measures (cash basis, including	**-309.1**	**-431.8**	**-466.6**	**-497.8**	**-516.9**	**-502.5**	**-454.1**	**-471.1**
Adjustments to cash basis	**-12.7**	**0.0**	**16.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Unidentified measures (deficit reducing)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**47.0**	**79.0**	**81.5**
Overall balance (cash basis, including grants)	**-309.1**	**-431.8**	**-466.6**	**-497.8**	**-516.9**	**-455.5**	**-375.1**	**-389.6**
Overall balance excluding SGR related expenditure	**-309.1**	**-351.7**	**-343.1**	**-357.7**	**-398.7**	**-371.6**	**-375.1**	**-389.6**
Statistical discrepency	**0.0**	**0.0**	**7.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	**309.1**	**431.8**	**466.6**	**497.8**	**516.9**	**455.5**	**375.1**	**389.6**
Net foreign financing	247.1	185.9	215.1	286.7	273.1	254.3	205.2	246.1
Disbursements	272.9	267.4	297.0	335.2	307.8	304.8	265.4	358.1
Project loans	96.9	119.0	94.7	148.6	109.6	169.5	207.7	245.8
Program loans	0.0	0.0	3.5	0.0	8.2	0.0	0.0	0.0
Commercial borrowing [2]	176.0	68.3	75.3	46.5	71.8	51.4	57.7	112.3
Standard Gauge Railway loan from China	0.0	80.1	123.5	140.1	118.2	83.9	0.0	0.0
Repayments due	-25.8	-81.5	-81.9	-48.5	-34.7	-50.5	-60.2	-112.1
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	62.0	245.9	251.5	211.1	243.8	201.2	169.9	143.5
Memorandum items:								
Nominal GDP	5,044.2	5713.4	5,722.9	6,512.3	6,501.5	7,390.0	8,390.5	9,489.5
Primary balance incl. grants	(177.2)	(290.0)	(315.2)	(333.8)	(340.6)	(257.0)	(161.6)	(161.7)
Primary balance excluding SGR expenditure (incl. grants)	(177.2)	(209.9)	(191.7)	(193.7)	(222.4)	(173.1)	(161.6)	(161.7)
Total gross public debt, gross	2377.6	2846.3	2932.9	3311.3	3455.5	3961.2	4397.1	4853.2
of which: external debt [3]	1093.3	1327.6	1411.6	1641.5	1761.2	2051.6	2298.9	2592.0
of which: domestic debt	1284.3	1518.7	1521.3	1669.9	1694.3	1909.6	2098.2	2261.2
Total net public debt [4]	2172.1	2652.3	2738.9	3177.3	3318.6	3810.2	4227.4	4664.1
Government deposits	205.5	194.0	194.0	134.1	136.8	150.9	169.7	189.1

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Includes proceeds from (i) syndicated loans, (ii) US$2.0bn Eurobond , and (iii) planned sovereign bonds.

[3] External debt excludes guarantees.

[4] Total net debt in 2013/14 includes proceeds from US$2.0bn Eurobond.

Table 2b. Kenya: Central Government Financial Operations, 2013/14–2018/19[1]

	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19
	Act.	Prog.	Prelim.	Prog.	Proj.	Proj.	Proj.	Proj.
	(in percent of GDP, unless otherwise indicated)							
Revenues and grants	**19.9**	**21.1**	**19.4**	**21.8**	**21.1**	**21.4**	**21.6**	**21.8**
Revenue	**19.3**	**20.6**	**18.9**	**21.4**	**20.7**	**21.0**	**21.2**	**21.5**
Tax revenue	16.9	17.9	16.8	18.7	18.0	18.4	18.5	18.7
Income tax	8.9	9.5	8.9	9.9	9.5	9.6	9.8	10.0
Import duty (net)	1.3	1.2	1.3	1.1	1.3	1.3	1.2	1.2
Excise duty	2.0	2.1	2.0	2.2	2.4	2.5	2.5	2.5
Value-added tax	4.6	5.1	4.6	5.5	4.9	5.0	5.0	5.0
Nontax revenue	2.4	2.7	2.1	2.7	2.7	2.7	2.7	2.7
Investment income	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Other	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Ministerial and Departmental Fees (AIA)	0.7	0.8	0.6	0.9	0.9	0.9	0.9	0.9
Railway Levy	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Grants	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Project grants	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Program grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure and net lending	**25.7**	**28.7**	**27.9**	**29.5**	**29.1**	**28.2**	**27.1**	**26.8**
Recurrent expenditure	**19.4**	**19.7**	**18.8**	**19.5**	**19.5**	**19.0**	**18.5**	**18.3**
Transfer to counties	3.4	4.0	4.0	3.8	4.1	3.9	3.8	3.8
Interest payments	2.6	2.5	2.6	2.5	2.7	2.7	2.5	2.4
Domestic interest	2.4	2.2	2.1	2.0	2.0	1.9	1.7	1.5
Foreign interest due	0.3	0.3	0.5	0.5	0.7	0.8	0.8	0.9
Wages and benefits (civil service)	5.6	5.3	5.2	5.1	5.1	4.7	4.6	4.5
Pensions, etc.	0.6	0.8	0.7	0.9	0.7	0.7	0.8	0.8
Defense and NSIS	1.9	2.0	1.6	2.0	1.7	1.7	1.7	1.7
Other	4.9	5.0	4.6	5.1	5.2	5.3	5.1	5.1
of which: Social Spending	--	0.9	0.9	1.0	1.0	1.1	1.3	1.3
Development and net lending	**6.3**	**9.0**	**9.0**	**9.9**	**9.4**	**9.1**	**8.4**	**8.4**
Domestically financed	3.9	5.0	4.7	5.1	5.4	5.3	5.6	5.4
Foreign financed	2.4	3.9	4.2	4.7	3.8	3.7	2.8	2.9
of which: SGR project	0.0	1.4	2.2	2.2	1.8	1.1	0.0	0.0
Net lending	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Overall balance excluding measures (cash basis, including	**-6.1**	**-7.6**	**-8.2**	**-7.6**	**-8.0**	**-6.8**	**-5.4**	**-5.0**
Adjustments to cash basis	**-0.3**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Unidentified measures (deficit reducing)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**0.9**	**0.9**
Overall balance (cash basis, including grants)	**-6.1**	**-7.6**	**-8.2**	**-7.6**	**-8.0**	**-6.2**	**-4.5**	**-4.1**
Overall balance excluding SGR related expenditure	**-6.1**	**-6.2**	**-6.0**	**-5.5**	**-6.1**	**-5.0**	**-4.5**	**-4.1**
Statistical discrepency	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	**6.1**	**7.6**	**8.2**	**7.6**	**8.0**	**6.2**	**4.5**	**4.1**
Net foreign financing	4.9	3.3	3.8	4.4	4.2	3.4	2.4	2.6
Disbursements	5.4	4.7	5.2	5.1	4.7	4.1	3.2	3.8
Project loans	1.9	2.1	1.7	2.3	1.7	2.3	2.5	2.6
Program loans	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Commercial borrowing [2]	3.5	1.2	1.3	0.7	1.1	0.7	0.7	1.2
Standard Gauge Railway loan from China	0.0	1.4	2.2	2.2	1.8	1.1	0.0	0.0
Repayments due	-0.5	-1.4	-1.4	-0.7	-0.5	-0.7	-0.7	-1.2
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	1.2	4.3	4.4	3.2	3.8	2.7	2.0	1.5
Memorandum items:								
Primary balance incl. grants (Central government)	-3.5	-5.1	-5.5	-5.1	-5.2	-3.5	-1.9	-1.7
Primary balance excluding SGR expenditure (incl. grants)	-3.5	-3.7	-3.3	-3.0	-3.4	-2.3	-1.9	-1.7
Total gross public debt, gross	47.1	49.8	51.2	50.8	53.1	53.6	52.4	51.1
of which: external debt [3]	21.7	23.2	24.7	25.2	27.1	27.8	27.4	27.3
of which: domestic debt	25.5	26.6	26.6	25.6	26.1	25.8	25.0	23.8
Total gross public debt, PV	46.2	44.9	47.2	45.6	48.3	47.7	46.6	45.2
Total net public debt [4]	43.1	46.4	47.9	48.8	51.0	51.6	50.4	49.2
Government deposits (in months of domestically financed expe	2.1	1.6	1.7	1.0	1.0	1.0	1.0	1.0

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Includes proceeds from (i) syndicated loans, (ii) US$2.0bn Eurobond , and (iii) planned sovereign bonds.

[3] External debt excludes guarantees.

[4] Total net debt in 2013/14 includes proceeds from US$2.0bn Eurobond.

Table 2c. Kenya: General Government, 2013/14–2018/19[1]

	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19
	Act.	Prog.	Prelim.	Prog.	Proj	Proj	Proj	Proj
	(in billions of Kenyan Shillings, unless otherwise indicated)							
Revenues and grants	**1,027.7**	**1,235.2**	**1,141.1**	**1,454.3**	**1,406.7**	**1,624.6**	**1,863.6**	**2,128.2**
Central Government revenues and grants	**1,001.4**	**1,205.7**	**1,111.6**	**1,420.3**	**1,372.7**	**1,584.9**	**1,815.7**	**2,073.3**
Tax revenue	851.8	1,021.3	959.4	1,216.4	1,171.1	1,357.5	1,555.5	1,777.6
Income tax	449.6	541.1	508.6	647.0	614.8	711.5	825.9	949.3
Import duty (net)	67.6	70.2	74.0	70.3	86.0	94.0	103.2	113.4
Excise duty	102.0	120.6	115.9	142.4	153.5	183.4	208.6	237.2
Value-added tax	232.6	289.4	260.9	356.7	316.9	368.6	417.8	477.7
Nontax revenue	122.6	154.0	123.0	176.1	174.0	197.5	227.2	260.5
Grants	27.0	30.5	29.2	27.7	27.6	29.9	33.0	35.1
County revenues and grants	**26.3**	**29.5**	**29.5**	**34.0**	**34.0**	**39.7**	**47.9**	**54.9**
Local revenue (Property tax, Single Business Permits, etc…)	26.3	29.5	29.5	34.0	34.0	39.7	47.9	54.9
Expenditure and net lending	**1,273.8**	**1,648.9**	**1,606.5**	**1,955.6**	**1,908.5**	**2,131.6**	**2,336.0**	**2,630.5**
Recurrent expenditure	**917.9**	**1,065.3**	**1,025.2**	**1,212.9**	**1,200.4**	**1,332.4**	**1,467.0**	**1,641.7**
Wages and salaries	373.2	410.1	404.8	452.6	451.0	485.9	532.0	590.8
of which: counties	92.0	106.8	106.8	122.3	122.3	136.5	143.6	162.0
Other	544.7	655.1	620.4	760.3	749.3	846.4	935.0	1050.9
of which: counties	40.8	71.8	71.8	74.2	74.2	82.5	89.3	100.7
Development and net lending	**355.9**	**575.2**	**575.9**	**731.7**	**695.1**	**787.3**	**856.4**	**976.0**
Domestically financed	235.1	350.1	331.4	419.7	440.2	508.8	620.1	698.0
of which: counties	36.6	62.1	62.1	86.5	86.5	114.0	152.0	183.4
Foreign financed	118.6	222.2	242.4	309.1	247.7	276.1	233.4	274.8
Net lending	2.2	2.9	2.1	3.0	7.2	2.5	2.8	3.2
Other (equalization, contingencies, etc…)	0.0	8.4	5.4	11.0	13.0	11.9	12.7	12.7
Overall balance (cash basis, including grants)	**-246.1**	**-413.7**	**-465.4**	**-501.3**	**-501.8**	**-460.0**	**-393.4**	**-420.8**
Overall balance excluding SGR related expenditure	**-246.1**	**-284.6**	**-341.9**	**-435.2**	**-383.6**	**-376.1**	**-393.4**	**-420.8**
Memorandum items:								
Nominal GDP	5,044.2	5713.4	5,722.9	6,512.3	6,501.5	7,390.0	8,390.5	9,489.5
Central government balance (cash basis, including grants)	-309.1	-431.8	-466.6	-497.8	-516.9	-455.5	-375.1	-389.6
County government deposits	50.3	82.5	82.5	86.5	105.2	104.2	98.9	93.3
in months of county expenditures	3.6	4.4	4.4	3.8	4.6	3.8	3.2	2.7

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Preliminary IMF staff estimates. General government includes central government and county government, and excludes extra budgetary funds (EBFs) and central government units with individual budgets for which regularly published data are not available.

Table 2d. Kenya: General Government, 2013/14–2018/19[1]

	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19
	Act.	Prog.	Prelim.	Prog.	Proj	Proj	Proj	Proj
	(in percent of GDP, unless otherwise indicated)							
Revenues and grants	**20.4**	**21.6**	**19.9**	**22.3**	**21.6**	**22.0**	**22.2**	**22.4**
Central Government revenues and grants	**19.9**	**21.1**	**19.4**	**21.8**	**21.1**	**21.4**	**21.6**	**21.8**
Tax revenue	**16.9**	**17.9**	**16.8**	**18.7**	**18.0**	**18.4**	**18.5**	**18.7**
Nontax revenue	**2.4**	**2.7**	**2.1**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**
Grants	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
County revenues and grants	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**
Local revenue (Property tax, Single Business Permits, etc…)	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**
Expenditure and net lending	**25.3**	**28.9**	**28.1**	**30.0**	**29.4**	**28.8**	**27.8**	**27.7**
Recurrent expenditure	**18.2**	**18.6**	**17.9**	**18.6**	**18.5**	**18.0**	**17.5**	**17.3**
Wages and salaries	**7.4**	**7.2**	**7.1**	**6.9**	**6.9**	**6.6**	**6.3**	**6.2**
of which: counties	**1.8**	**1.9**	**1.9**	**1.9**	**1.9**	**1.8**	**1.7**	**1.7**
Other	**10.8**	**11.5**	**10.8**	**11.7**	**11.5**	**11.5**	**11.1**	**11.1**
of which: counties	**0.8**	**1.3**	**1.3**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**
Development and net lending	**7.1**	**10.1**	**10.1**	**11.2**	**10.7**	**10.7**	**10.2**	**10.3**
Domestically financed	**4.7**	**6.1**	**5.8**	**6.4**	**6.8**	**6.9**	**7.4**	**7.4**
of which: counties	**0.7**	**1.1**	**1.1**	**1.3**	**1.3**	**1.5**	**1.8**	**1.9**
Foreign financed	**2.4**	**3.9**	**4.2**	**4.7**	**3.8**	**3.7**	**2.8**	**2.9**
Net lending	**0.0**	**0.1**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**
Overall balance (cash basis, including grants)	**(4.9)**	**(7.2)**	**(8.1)**	**(7.7)**	**(7.7)**	**(6.2)**	**(4.7)**	**(4.4)**
Overall balance excluding SGR related expenditure	**(4.9)**	**(5.0)**	**(5.9)**	**(6.7)**	**(6.7)**	**(5.6)**	**(4.2)**	**(4.2)**
Memorandum items:								
Central government balance (cash basis, including grants)	(6.1)	(7.6)	(8.2)	(7.6)	(8.0)	(6.2)	(4.5)	(4.1)
County government deposits	1.0	1.4	1.4	1.3	1.6	1.4	1.2	1.0
in months of county expenditures	3.6	4.4	4.4	3.8	4.6	3.8	3.2	2.7

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Preliminary IMF staff estimates. General government includes central government and county government, and excludes extra budgetary funds (EBFs) and central government units with individual budgets for which regularly published data are not available.

Table 3a. Kenya: Monetary Survey, June 2014–December 2015

	Jun-14	Dec-14		Mar-15		Jun-15		Sep-15		Dec-15	
	Act.	Prog.	Act.	Prog.	Prelim.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
	(In billions of Kenyan shillings, unless otherwise indicated)										
Central Bank of Kenya (CBK)											
Net foreign assets	615.4	573.7	588.8	572.4	569.6	562.5	562.6	567.7	537.5	616.6	597.9
(in millions of US dollars) [1 2]	7,023.2	6,425	6,505.9	6,410.9	6,169.1	6,301	5,703.3	6,359	5,449.4	6,907	6,061.5
Net domestic assets	-291.7	-229.8	-209.1	-222.0	-223.3	-202.2	-209.5	-193.1	-159.9	-207.0	-166.3
Net domestic credit	-176.1	-129.8	-98.2	-132.0	-103.9	-117.2	-72.0	-113.1	-22.4	-77.0	-28.9
Government (net)	-176.1	-101.4	-92.0	-77.7	-61.3	-60.0	-70.7	-50.0	-52.0	-100.0	-70.0
Commercial banks (net)	0.0	-30.9	-6.1	-56.8	-42.6	-59.7	-1.3	-65.6	27.1	20.5	38.6
Other items (net)	-115.6	-100.0	-110.9	-90.0	-119.5	-85.0	-137.5	-80.0	-137.5	-130.0	-137.5
Reserve money	323.7	343.8	379.7	350.4	346.3	360.3	353.1	374.6	377.7	409.7	431.6
Currency outside banks	158.2	153.1	173.2	164.2	171.3	176.4	174.1	170.7	174.8	190.1	209.0
Bank reserves	165.6	190.7	206.5	186.2	175.0	184.0	179.0	203.9	202.9	219.5	222.6
Banks											
Net foreign assets	-86.0	-114.7	-109.1	-123.6	-107.6	-132.5	-96.3	-134.8	-96.3	-137.0	-98.8
(in millions of US dollars)	-981.4	-1,284.4	-1,206.0	-1,384.4	-1,165.5	-1,484.4	-976.6	-1,509.4	-976.6	-1,534.4	-1,001.6
Reserves	165.6	190.7	206.5	186.2	175.0	184.0	179.0	203.9	202.9	219.5	222.6
Credit to CBK	0.0	30.9	6.1	56.8	42.6	59.7	1.3	65.6	-27.1	-20.5	-38.6
Net domestic assets	1,881.5	2,012.1	2,026.6	2,071.0	2,089.8	2,132.3	2,177.6	2,264.3	2,307.4	2,377.4	2,387.7
Net domestic credit	2,215.2	2,199.0	2,400.5	2,260.4	2,501.9	2,324.2	2,559.3	2,465.9	2,689.1	2,588.7	2,769.5
Government (net)	459.1	273.1	471.3	273.1	531.0	250.9	548.4	284.7	600.3	304.3	594.8
Other public sector	40.0	51.0	48.4	51.0	43.8	51.0	43.8	51.0	43.8	51.0	43.8
Private sector	1,716.1	1,874.9	1,880.8	1,936.3	1,927.1	2,022.3	1,967.2	2,130.2	2,045.0	2,233.4	2,130.9
Other items (net)	-333.7	-186.9	-374.0	-189.4	-412.2	-191.9	-381.8	-201.6	-381.8	-211.3	-381.8
Total deposits	1,961.1	2,119.1	2,130.0	2,190.3	2,199.7	2,243.4	2,261.5	2,399.1	2,386.8	2,439.4	2,472.8
Monetary survey											
Net foreign assets	529.4	459.0	479.7	448.8	462.0	430.0	466.2	433.0	441.2	479.6	499.1
(in millions of US dollars)	6,041.8	5,141.0	5,300.0	5,026.5	5,003.6	4,816.3	4,726.7	4,849.5	4,472.8	5,372.3	5,059.9
Net domestic assets	1,622.7	1,856.1	1,850.3	1,944.2	1,936.8	2,021.0	1,998.2	2,188.1	2,159.8	2,185.4	2,195.6
Net domestic credit	2,041.7	2,100.1	2,311.0	2,185.2	2,443.2	2,266.7	2,491.1	2,418.4	2,639.6	2,491.2	2,702.0
Government (net)	283.1	171.7	379.3	195.4	469.7	190.9	477.7	234.7	548.3	204.3	524.8
Other public sector	40.0	51.0	48.4	51.0	43.8	51.0	43.8	51.0	43.8	51.0	43.8
Private	1,718.6	1,877.4	1,883.3	1,938.8	1,929.6	2,024.8	1,969.7	2,132.7	2,047.5	2,235.9	2,133.4
Other items (net)	-419.0	-244.0	-460.7	-241.0	-506.4	-245.7	-492.9	-230.4	-479.8	-305.8	-506.3
M1	913.0	928.5	936.4	959.8	971.3	983.0	999.7	1,051.2	1,055.1	1,068.9	1,093.1
Money and quasi-money (M2)	1,838.1	1,946.6	1,981.9	2,012.1	2,046.8	2,060.8	2,087.2	2,203.8	2,202.8	2,240.9	2,282.2
M2 plus resident foreign currency deposits (M3)	2,152.1	2,315.1	2,330.0	2,393.0	2,398.8	2,450.9	2,464.5	2,621.0	2,601.0	2,665.1	2,694.7
M3 plus nonbank holdings of government debt (L)	2,718.3	3,105.0	2,949.1	3,209.5	3,034.6	3,287.2	3,098.4	3,515.4	3,270.1	3,574.4	3,387.9
Memorandum items	(Annual percent change unless otherwise specified)										
M2	18.8	16.5	18.6	14.4	16.4	12.1	13.6	16.4	16.3	15.1	15.2
M3	18.2	16.0	16.7	16.1	16.4	13.9	14.5	16.4	15.5	15.1	15.7
Deposits	18.6	17.6	18.2	16.8	17.3	14.4	15.3	16.4	15.8	15.1	16.1
Reserve money	12.6	7.2	18.4	13.1	11.8	11.3	9.1	16.1	17.0	19.1	13.7
Net domestic credit	14.5	6.1	16.8	4.2	16.5	11.0	22.0	14.7	16.9	18.6	16.9
Government (net)	-25.4	-56.8	-4.5	-56.6	4.4	-32.6	68.8	-6.5	37.1	19.0	38.4
Private	25.7	21.8	22.2	20.2	19.6	17.8	14.6	18.0	13.3	19.1	13.3
Net domestic assets of the banking sector	11.2	15.4	15.0	15.1	14.6	24.5	23.1	21.2	19.6	17.7	18.7
NDA growth (as percent of the base period M3)	7.2	9.8	9.6	9.8	9.5	14.7	13.8	12.7	12.3	10.6	11.7
Multiplier (Average M2/RM)	5.5	5.7	5.6	5.7	5.7	5.7	5.7	5.8	5.7	5.7	5.7
Multiplier (Average M3/RM)	6.5	6.8	6.6	6.8	6.7	6.8	6.7	6.8	6.7	6.8	6.7
Velocity (GDP/M3)	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Velocity (GDP/M2)	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.9	2.8
Nominal GDP growth	12.2	12.3	13.3	12.7	13.4	13.1	13.5	13.5	13.5	13.9	13.6

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] For historical data, at implicit CBK exchange rate.

[2] Starting in June 2014, it includes government deposits abroad on account of the Eurobond issuance, as an asset and as a liability.

Table 3b. Kenya: Monetary Survey, 2013/14-2018/19

	2013/2014	2014/2015		2015/2016		2016/2017	2017/2018	2018/2019
	Act.	Prog.	Prelim.	Prog.	Proj.	Proj.	Proj.	Proj.
	(In billions of Kenyan shillings, unless otherwise indicated)							
Central Bank of Kenya (CBK)								
Net foreign assets	615.4	562.5	562.6	643.9	581.2	721.2	906.3	1,012.5
(in millions of US dollars) [1 2]	7,023.2	6,300.7	5,703.3	7,212.0	5,892.1	7,311.4	9,188.1	10,265.1
Net domestic assets	-291.7	-202.2	-209.5	-230.0	-172.5	-245.7	-359.1	-391.5
Net domestic credit	-176.1	-117.2	-72.0	-130.0	-19.9	-77.5	-170.7	-180.2
Government (net)	-176.1	-60.0	-70.7	-60.0	-90.0	-100.0	-100.0	-100.0
Commercial banks (net)	0.0	-59.7	-1.3	-72.5	67.6	20.0	-73.2	-82.7
Other items (net)	-115.6	-85.0	-137.5	-100.0	-152.5	-168.2	-188.3	-211.4
Reserve money	323.7	360.3	353.1	413.9	408.7	475.5	549.5	623.2
Currency outside banks	158.2	176.4	174.1	172.1	170.2	193.9	217.8	241.5
Bank reserves	165.6	184.0	179.0	241.9	238.5	281.6	331.7	381.6
Banks								
Net foreign assets	-86.0	-132.5	-96.3	-141.5	-103.7	-113.6	-123.5	-133.3
(in millions of US dollars)	-981.4	-1,484.4	-976.6	-1,584.4	-1,051.6	-1,151.6	-1,251.6	-1,351.6
Reserves	165.6	184.0	179.0	241.9	238.5	281.6	331.7	381.6
Credit to CBK	0.0	59.7	1.3	72.5	-67.6	-20.0	73.2	82.7
Net domestic assets	1,881.5	2,132.3	2,177.6	2,514.4	2,583.2	2,980.8	3,404.5	3,909.6
Net domestic credit	2,215.2	2,324.2	2,559.3	2,745.1	2,965.0	3,362.5	3,786.3	4,291.3
Government (net)	459.1	250.9	548.4	356.5	669.2	769.8	854.7	926.5
Other public sector	40.0	51.0	43.8	51.0	43.8	43.8	43.8	43.8
Private sector	1,716.1	2,022.3	1,967.2	2,337.6	2,252.1	2,549.0	2,887.8	3,321.1
Other items (net)	-333.7	-191.9	-381.8	-230.7	-381.8	-381.8	-381.8	-381.8
Total deposits	1,961.1	2,243.4	2,261.5	2,687.3	2,650.5	3,128.7	3,686.0	4,240.6
Monetary survey								
Net foreign assets	529.4	430.0	466.2	502.4	477.5	607.6	785.1	881.4
(in millions of US dollars)	6,041.8	4,816.3	4,726.7	5,627.6	4,840.5	6,159.8	7,959.4	8,935.8
Net domestic assets	1,622.7	2,021.0	1,998.2	2,433.4	2,410.9	2,801.9	3,231.7	3,739.7
Net domestic credit	2,041.7	2,266.7	2,491.1	2,687.6	2,877.5	3,265.0	3,688.8	4,193.8
Government (net)	283.1	190.9	477.7	296.5	579.2	669.8	754.7	826.5
Other public sector	40.0	51.0	43.8	51.0	43.8	43.8	43.8	43.8
Private	1,718.6	2,024.8	1,969.7	2,340.1	2,254.6	2,551.5	2,890.3	3,323.6
Other items (net)	-419.0	-245.7	-492.9	-254.2	-466.6	-463.1	-457.1	-454.1
M1	913.0	983.0	999.7	1,177.5	1,171.6	1,383.0	1,629.4	1,874.5
Money and quasi-money (M2)	1,838.1	2,060.8	2,087.2	2,468.5	2,446.2	2,887.6	3,401.9	3,913.7
M2 plus resident foreign currency deposits (M3)	2,152.1	2,450.9	2,464.5	2,935.9	2,888.3	3,409.5	4,016.8	4,621.1
M3 plus nonbank holdings of government debt (L)	2,718.3	3,287.2	3,098.4	3,937.6	3,631.3	4,286.6	5,050.1	5,809.8
Memorandum items								
	(annual percent change unless otherwise specified)							
M2	18.8	12.1	13.6	19.8	17.2	18.0	17.8	15.0
M3	18.2	13.9	14.5	19.8	17.2	18.0	17.8	15.0
Deposits	18.6	14.4	15.3	19.8	17.2	18.0	17.8	15.0
Reserve money	12.6	11.3	9.1	14.9	15.8	16.3	15.6	13.4
Net domestic credit	14.5	11.0	22.0	18.6	15.5	13.5	13.0	13.7
Government (net)	-25.4	-32.6	68.8	55.3	21.3	15.6	12.7	9.5
Private	25.7	17.8	14.6	15.6	14.5	13.2	13.3	15.0
Net domestic assets of the banking sector	11.2	24.5	23.1	20.4	20.6	16.2	15.3	15.7
NDA growth (as percent of the base period M3)	7.2	14.7	13.8	12.5	13.3	10.8	10.0	10.1
Multiplier (Average M3/RM)	6.5	6.8	6.7	6.9	6.8	6.9	7.0	7.1
Velocity (GDP/M3)	2.5	2.4	2.4	2.4	2.4	2.3	2.2	2.2
	(as percent of GDP)							
M2	36.4	36.1	36.5	37.9	37.6	39.1	40.5	41.2
M3	42.6	42.9	43.1	45.1	44.4	46.1	47.9	48.7
Deposits	38.8	39.3	39.5	41.3	40.8	42.3	43.9	44.7
Reserve money	6.4	6.3	6.2	6.4	6.3	6.4	6.5	6.6
Net domestic credit	40.4	39.7	43.5	41.3	44.3	44.2	44.0	44.2
Government (net)	5.6	3.3	8.3	4.6	8.9	9.1	9.0	8.7
Private	34.0	35.4	34.4	35.9	34.7	34.5	34.4	35.0

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] For historical data, at implicit CBK exchange rate.

[2] Starting in June 2014, it includes government deposits abroad on account of the Eurobond issuance, as an asset and as a liability.

Table 3c. Kenya: Monetary Survey, 2014-2019

	2014		2015		2016		2017	2018	2019
	Prog.	Act.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.
			(In billions of Kenyan shillings, unless otherwise indicated)						
Central Bank of Kenya (CBK)									
Net foreign assets	573.7	588.8	616.6	597.9	691.5	619.7	824.5	948.9	1,068.7
(in millions of US dollars) [1 2]	6,425.4	6,505.9	6,906.7	6,061.5	7,745.9	6,282.1	8,359.1	9,619.4	10,834.1
Net domestic assets	-229.8	-209.1	-207.0	-166.3	-216.5	-129.7	-253.7	-296.7	-333.8
Net domestic credit	-129.8	-98.2	-77.0	-28.9	-116.5	22.8	-85.5	-108.4	-122.4
Government (net)	-101.4	-92.0	-100.0	-70.0	-80.0	-90.0	-100.0	-100.0	-100.0
Commercial banks (net)	-30.9	-6.1	20.5	38.6	-39.0	110.3	12.0	-10.9	-24.9
Other items (net)	-100.0	-110.9	-130.0	-137.5	-100.0	-152.5	-168.2	-188.3	-211.4
Reserve money	343.8	379.7	409.7	431.6	475.0	490.0	570.8	652.1	734.9
Currency outside banks	153.1	173.2	190.1	209.0	217.7	232.5	264.1	296.2	326.8
Bank reserves	190.7	206.5	219.5	222.6	257.3	257.5	306.7	355.9	408.1
Banks									
Net foreign assets	-114.7	-109.1	-137.0	-98.8	-145.9	-108.7	-118.5	-128.4	-138.3
(in millions of US dollars)	-1,284.4	-1,206.0	-1,534.4	-1,001.6	-1,634.4	-1,101.6	-1,201.6	-1,301.6	-1,401.6
Reserves	190.7	206.5	219.5	222.6	257.3	257.5	306.7	355.9	408.1
Credit to CBK	30.9	6.1	-20.5	-38.6	39.0	-110.3	-12.0	10.9	24.9
Net domestic assets	2,012.1	2,026.6	2,377.4	2,387.7	2,708.4	2,822.3	3,231.8	3,716.3	4,239.7
Net domestic credit	2,199.0	2,400.5	2,588.7	2,769.5	2,958.5	3,204.0	3,613.5	4,098.1	4,621.5
Government (net)	273.1	471.3	304.3	594.8	388.1	731.3	825.7	918.8	994.1
Other public sector	51.0	48.4	51.0	43.8	51.0	43.8	43.8	43.8	43.8
Private sector	1,874.9	1,880.8	2,233.4	2,130.9	2,519.3	2,429.0	2,744.0	3,135.5	3,583.7
Other items (net)	-186.9	-374.0	-211.3	-381.8	-250.1	-381.8	-381.8	-381.8	-381.8
Total deposits	2,119.1	2,130.0	2,439.4	2,472.8	2,858.8	2,860.8	3,408.0	3,954.8	4,534.5
Monetary survey									
Net foreign assets	459.0	479.7	479.6	499.1	545.6	511.0	706.0	820.5	930.4
(in millions of US dollars)	5,141.0	5,300.0	5,372.3	5,059.9	6,111.5	5,180.6	7,157.5	8,317.9	9,432.5
Net domestic assets	1,856.1	1,850.3	2,185.4	2,195.6	2,577.6	2,606.5	3,007.8	3,489.2	4,011.0
Net domestic credit	2,100.1	2,311.0	2,491.2	2,702.0	2,881.0	3,116.5	3,516.0	4,000.6	4,524.0
Government (net)	171.7	379.3	204.3	524.8	308.1	641.3	725.7	818.8	894.1
Other public sector	51.0	48.4	51.0	43.8	51.0	43.8	43.8	43.8	43.8
Private	1,877.4	1,883.3	2,235.9	2,133.4	2,521.8	2,431.5	2,746.5	3,138.0	3,586.2
Other items (net)	-244.0	-460.7	-305.8	-506.3	-303.4	-510.1	-508.2	-511.4	-513.0
M1	928.5	936.4	1,068.9	1,093.1	1,252.7	1,264.6	1,506.5	1,748.2	2,004.5
Money and quasi-money (M2)	1,946.6	1,981.9	2,240.9	2,282.2	2,626.1	2,640.2	3,145.3	3,649.9	4,185.0
M2 plus resident foreign currency deposits (M3)	2,315.1	2,330.0	2,665.1	2,694.7	3,123.3	3,117.5	3,713.8	4,309.7	4,941.4
M3 plus nonbank holdings of government debt (L)	3,105.0	2,949.1	3,574.4	3,387.9	4,189.0	3,919.4	4,669.2	5,418.3	6,212.6
Memorandum items									
			(Annual percent change unless otherwise specified)						
M2	16.5	18.6	15.1	15.2	17.2	15.7	19.1	16.0	14.7
M3	16.0	16.7	15.1	15.7	17.2	15.7	19.1	16.0	14.7
Deposits	17.6	18.2	15.1	16.1	17.2	15.7	19.1	16.0	14.7
Reserve money	7.2	18.4	19.1	13.7	16.0	13.5	16.5	14.2	12.7
Net domestic credit	6.1	16.8	18.6	16.9	15.6	15.3	12.8	13.8	13.1
Government (net)	-56.8	-4.5	19.0	38.4	50.8	22.2	13.2	12.8	9.2
Private	21.8	22.2	19.1	13.3	12.8	14.0	13.0	14.3	14.3
Net domestic assets of the banking sector	15.4	15.0	17.7	18.7	17.9	18.7	15.4	16.0	15.0
NDA growth (as percent of the base period M3)	9.8	9.6	10.6	11.7	11.0	12.1	10.2	10.3	9.6
Multiplier (Average M3/RM)	6.8	6.6	6.8	6.7	6.9	6.8	6.9	7.0	7.1
Velocity (GDP/M3)	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.2	2.2
			(as percent of GDP)						
M2	36.4	37.0	36.8	37.5	37.8	38.2	40.0	40.9	41.6
M3	43.3	43.5	43.8	44.3	45.0	45.1	47.2	48.3	49.1
Deposits	39.7	39.8	40.1	40.6	41.2	41.4	43.3	44.4	45.1
Reserve money	6.4	7.1	6.7	7.1	6.8	7.1	7.3	7.3	7.3
Net domestic credit	39.3	43.1	40.9	44.4	41.5	45.1	44.7	44.9	45.0
Government (net)	3.2	7.1	3.4	8.6	4.4	9.3	9.2	9.2	8.9
Private	35.1	35.2	36.8	35.0	36.3	35.2	34.9	35.2	35.6

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] For historical data, at implicit CBK exchange rate.

[2] Starting in June 2014, it includes government deposits abroad on account of the Eurobond issuance, as an asset and as a liability.

Table 4a. Kenya: Balance of Payments, 2013/14–2018/19

(in millions of U.S. dollars, unless otherwise indicated)

	2013/14	2014/15		2015/16		2016/17	2017/18	2018/19
	Act.	Prog.	Prelim.	Prog.	Proj.	Projections		
Current account	**-5,128.6**	**-5,056.3**	**-6,570.7**	**-5,097.7**	**-6,889.0**	**-6,154.0**	**-5,798.6**	**-6,146.9**
Exports, f.o.b.	6,088.3	6,243.2	6,127.7	6,861.0	6,837.3	7,349.1	8,108.9	8,936.9
Coffee	205.8	235.7	226.3	235.2	169.3	197.4	219.7	237.5
Tea	1,101.4	1,142.5	1,138.6	1,321.7	1,390.5	1,571.3	1,710.3	1,881.2
Horticulture	785.6	798.6	782.0	873.0	784.5	884.5	962.7	1,050.4
Imports, f.o.b	-16,489.1	-17,592.5	-17,954.1	-18,856.1	-19,284.2	-19,656.9	-20,823.5	-22,699.9
of which: SGR-related	0.0	-250.0	-570.0	-625.0	-1,282.5	-997.5	0.0	0.0
Oil	-3,743.9	-3,609.6	-3,218.3	-3,349.7	-3,081.2	-3,129.7	-3,540.9	-3,937.6
Other nongovernment	-12,623.4	-13,852.1	-14,487.4	-15,369.7	-15,970.1	-16,289.3	-17,028.7	-18,488.9
Power generation-related machinery & aircraft	-783.3	-1,211.7	-1,819.6	-938.2	-1,295.0	-1,123.5	-1,194.2	-1,209.4
Other capital imports [1]	-3,835.1	-4,615.0	-4,443.7	-5,586.0	-5,477.0	-5,653.3	-5,707.7	-6,145.0
Balance on goods	-10,400.8	-11,349.4	-11,826.4	-11,995.1	-12,446.9	-12,307.8	-12,714.6	-13,763.0
Balance on services	2,325.9	3,304.4	2,034.5	3,568.5	2,085.1	2,347.8	2,650.5	2,892.2
Foreign travel credit	845.7	844.3	763.1	926.8	764.8	862.3	955.5	1,050.5
Balance on goods and services	-8,074.9	-8,045.0	-9,791.9	-8,426.6	-10,361.8	-9,960.0	-10,064.2	-10,870.8
Income (net)	-510.6	-405.8	-757.6	-372.9	-881.0	-931.7	-887.5	-841.6
Current transfers (net)	3,456.9	3,394.5	3,978.8	3,701.9	4,353.8	4,737.8	5,153.1	5,565.5
Private (net)	3,195.5	3,343.5	3,688.7	3,660.5	4,107.3	4,487.3	4,879.9	5,279.6
of which: remittances	1,372.6	1,512.5	1,512.2	1,686.6	1,675.8	1,871.2	2,061.2	2,238.8
Capital and financial account	7,525.7	4,417.7	5,189.0	6,072.6	7,563.9	7,186.1	7,721.9	7,323.0
Capital account (incl. capital transfers)	56.0	259.7	152.7	230.4	199.8	222.6	247.6	274.4
Financial account	7,469.7	4,158.0	5,036.3	5,842.2	7,364.1	6,963.6	7,474.2	7,048.6
Net FDI	799.3	901.7	1,365.8	1,278.5	1,890.3	2,355.4	2,629.1	2,783.8
In Kenya	782.5	1,346.9	1,243.6	1,717.9	1,640.3	2,025.8	2,295.2	2,479.4
Abroad	16.7	-445.2	122.2	-439.3	249.9	329.6	333.9	304.5
Net portfolio investment	2,562.5	922.4	1,417.4	730.6	1,388.7	911.9	1,597.6	1,922.9
Liabilities	2,609.2	977.2	1,473.9	785.4	1,448.7	976.1	1,664.0	1,990.5
Assets	-46.8	-54.8	-56.5	-54.8	-60.1	-64.2	-66.4	-67.6
Net other investment	3,472.1	2,334.0	1,884.5	3,833.0	4,085.1	3,696.3	3,247.5	2,341.9
Official, medium and long-term	696.8	784.2	633.3	2,288.6	2,064.9	1,998.6	1,776.3	1,500.0
Inflows	1,119.3	1,847.4	1,676.9	2,714.9	2,393.4	2,349.8	2,192.2	2,043.9
Outflows	-422.5	-1,063.2	-1,043.6	-426.4	-328.6	-351.2	-415.9	-543.8
Private, medium and long-term	-373.0	560.2	-363.3	911.9	1,576.7	697.7	459.1	-245.4
Energy financing	108.3	116.4	114.6	124.6	121.3	130.5	122.2	113.1
Kenya Airways	204.1	161.2	161.2	-197.2	-197.2	-283.1	-439.1	-570.2
Other	-685.4	282.6	-639.1	984.5	1,652.6	850.3	776.0	211.7
Short-term capital	3,148.3	989.7	1,614.5	632.5	443.6	1,000.0	1,012.1	1,087.3
Errors and omissions	635.9	0.0	368.5	0.0	0.0	0.0	0.0	0.0
Overall balance	2,397.1	-638.5	-1,381.7	974.9	674.9	1,032.2	1,923.3	1,176.1
Financing items	-2,397.1	638.5	1,381.7	-974.9	-674.9	-1,032.2	-1,923.3	-1,176.1
Reserve assets (gross)	-2,465.5	714.9	1,456.5	-880.0	-579.9	-891.5	-1,765.0	-1,047.4
Use of Fund credit and loans to the Fund (net)	68.4	-76.4	-74.8	-94.9	-94.9	-140.7	-158.3	-128.7
Disbursements	110.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-42.2	-76.4	-74.8	-94.9	-94.9	-140.7	-158.3	-128.7
Memorandum items:								
Gross official reserves (end of period) [2]	8,554.5	7,839.6	7,098.0	8,719.6	7,250.0	7,902.5	8,828.0	9,851.2
(in months of following year's imports of goods and services)	4.9	4.3	3.8	4.3	3.8	3.9	4.0	4.1
(in months of 3-year-rolling average imports) [3]	5.6	4.9	4.4	5.1	4.2	4.3	4.6	4.8
(in percent of M3)	39.7	32.0	27.8	29.7	25.1	23.5	22.3	21.6
WEO oil price (APSP; US$)	104.9	70.9	71.8	60.3	57.9	61.4	65.0	67.6

Sources: Kenyan authorities; and IMF staff estimates and projections.

[1] Includes oil exploration-related machinery and equipment.

[2] Reserves at end-2013/14 include proceeds of US$2 billion from the eurobond issuance completed in late June 2014.

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

Table 4b. Kenya: Balance of Payments, 2013/14–2018/19

(in percent of GDP)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Act.			Projections		
Current account	-8.4	-8.9	-10.6	-10.4	-8.5	-7.2	-6.8
Exports, f.o.b.	11.6	10.5	9.9	10.3	10.1	10.0	10.0
Coffee	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Tea	2.5	1.9	1.8	2.1	2.2	2.1	2.1
Horticulture	1.4	1.4	1.3	1.2	1.2	1.2	1.2
Imports, f.o.b.	-30.0	-28.5	-28.9	-29.2	-27.0	-25.7	-25.3
of which: SGR-related	0.0	0.0	-0.9	-1.9	-1.4	0.0	0.0
Oil	-7.0	-6.5	-5.2	-4.7	-4.3	-4.4	-4.4
Other nongovernment	-22.7	-21.8	-23.3	-24.2	-22.4	-21.0	-20.6
Power generation-related machinery & aircraft	-1.9	-1.4	-2.9	-2.0	-1.5	-1.5	-1.3
Other capital imports 1/	-6.7	-6.6	-7.2	-8.3	-7.8	-7.0	-6.8
Balance on goods	-18.3	-18.0	-19.0	-18.8	-16.9	-15.7	-15.3
Balance on services	4.8	4.0	3.3	3.2	3.2	3.3	3.2
Foreign travel credit	1.7	1.5	1.2	1.2	1.2	1.2	1.2
Balance on goods and services	-13.5	-13.9	-15.8	-15.7	-13.7	-12.4	-12.1
Income (net)	-0.5	-0.9	-1.2	-1.3	-1.3	-1.1	-0.9
Current transfers (net)	5.6	6.0	6.4	6.6	6.5	6.4	6.2
Private (net)	5.3	5.5	5.9	6.2	6.2	6.0	5.9
of which: remittances	2.4	2.4	2.4	2.5	2.6	2.5	2.5
Capital and financial account	9.5	13.0	8.4	11.4	9.9	9.5	8.2
Capital account (incl. capital transfers)	0.3	0.1	0.2	0.3	0.3	0.3	0.3
Financial account	9.3	12.9	8.1	11.1	9.6	9.2	7.9
Net FDI	0.8	1.4	2.2	2.9	3.2	3.2	3.1
In Kenya	0.7	1.4	2.0	2.5	2.8	2.8	2.8
Abroad	0.0	0.0	0.2	0.4	0.5	0.4	0.3
Net portfolio investment	0.2	4.4	2.3	2.1	1.3	2.0	2.1
Liabilities	0.3	4.5	2.4	2.2	1.3	2.1	2.2
Assets	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net other investment	7.3	6.0	3.0	6.2	5.1	4.0	2.6
Official, medium and long-term	1.4	1.2	1.0	3.1	2.7	2.2	1.7
Inflows	1.9	1.9	2.7	3.6	3.2	2.7	2.3
Outflows	-0.5	-0.7	-1.7	-0.5	-0.5	-0.5	-0.6
Private, medium and long-term	0.6	-0.6	-0.6	2.4	1.0	0.6	-0.3
Energy financing	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Kenya Airways	0.0	0.4	0.3	-0.3	-0.4	-0.5	-0.6
Other	0.4	-1.2	-1.0	2.5	1.2	1.0	0.2
Short-term capital	5.3	5.4	2.6	0.7	1.4	1.2	1.2
Errors and omissions	1.0	1.1	0.6	0.0	0.0	0.0	0.0
Overall balance	1.2	4.1	-2.2	1.0	1.4	2.4	1.3
Financing items	-1.2	-4.1	2.2	-1.0	-1.4	-2.4	-1.3
Reserve assets (gross)	-1.5	-4.3	2.3	-0.9	-1.2	-2.2	-1.2
Use of Fund credit and loans to the Fund (net)	0.3	0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Disbursements	0.4	0.2	0.0	0.0	0.0	0.0	0.0
Repayments	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Memorandum items:							
Gross official reserves (end of period)	11.6	14.8	11.4	11.0	10.9	10.9	11.0
Exports of goods and nonfactor services	21.0	19.0	17.9	18.2	17.8	17.6	17.4
Imports of goods and nonfactor services	-34.5	-33.0	-33.6	-33.9	-31.5	-30.0	-29.5

Sources: Kenyan authorities; and staff estimates and projections.
1/ Includes oil exploration-related machinery and equipment.

Table 4c. Kenya: Balance of Payments, 2014–19

(in millions of U.S. dollars)

	2014		2015		2016		2017	2018	2019
	Prog.	Act.	Prog.	Proj.	Prog.	Proj.	Projections		
Current account	**-5,243.5**	**-6,339.4**	**-4,869.0**	**-6,188.2**	**-5,326.4**	**-6,651.6**	**-5,691.5**	**-5,899.3**	**-6,387.8**
Excluding official transfers	-5,303.4	-6,666.5	-4,911.1	-6,441.3	-5,367.1	-6,891.6	-5,952.4	-6,184.8	-6,674.2
Exports, f.o.b.	6,006.0	6,192.2	6,480.3	6,590.1	7,241.7	6,960.5	7,702.5	8,521.7	9,358.8
Coffee	250.5	231.6	220.9	185.9	249.4	180.8	208.2	229.7	244.4
Tea	1,048.2	1,069.4	1,236.9	1,294.6	1,406.5	1,484.0	1,626.8	1,798.2	1,968.6
Horticulture	777.8	807.6	819.5	771.2	926.5	851.7	920.2	1,008.9	1,095.5
Imports, f.o.b	-17,263.0	-17,688.8	-17,922.0	-18,132.5	-19,790.3	-19,373.8	-19,940.0	-21,707.1	-23,692.7
of which: SGR-related	-125.0	-142.5	-375.0	-855.0	-875.0	-1,710.0	-142.5	0.0	0.0
Oil	-3,927.3	-3,853.9	-3,292.0	-2,992.2	-3,407.4	-2,922.5	-3,337.0	-3,744.9	-4,130.4
Other nongovernment	-13,205.7	-13,639.8	-14,498.6	-14,928.4	-16,240.8	-16,221.3	-16,357.3	-17,700.1	-19,277.6
Power generation-related machinery & aircraft	-1,461.6	-1,822.0	-961.8	-1,328.2	-914.5	-1,017.9	-1,229.0	-1,159.3	-1,259.4
Other capital imports [1]	-4,064.0	-4,044.0	-5,166.1	-4,811.5	-6,005.9	-5,810.7	-5,495.8	-5,919.6	-6,370.4
Balance on goods	**-11,257.1**	**-11,496.6**	**-11,441.7**	**-11,542.4**	**-12,548.5**	**-12,413.3**	**-12,237.4**	**-13,185.4**	**-14,333.9**
Balance on services	3,159.0	2,062.5	3,449.8	2,006.5	3,687.1	2,163.8	2,531.7	2,769.2	3,015.2
Credit	5,766.9	4,916.8	6,299.6	5,024.9	6,952.8	5,361.3	5,886.7	6,398.2	6,954.4
Foreign travel credit	821.5	810.7	867.0	715.6	986.6	814.1	910.5	1,000.5	1,100.4
Debit	-2,607.9	-2,854.3	-2,849.9	-3,018.4	-3,265.6	-3,197.5	-3,355.0	-3,629.0	-3,939.2
Transportation	-1,281.5	-1,515.4	-1,330.5	-1,553.4	-1,527.9	-1,626.5	-1,674.1	-1,822.4	-1,989.1
Balance on goods and services	**-8,098.0**	**-9,434.2**	**-7,991.9**	**-9,535.9**	**-8,861.4**	**-10,249.5**	**-9,705.7**	**-10,416.2**	**-11,318.7**
Income (net)	-396.8	-682.5	-414.9	-832.7	-330.9	-929.3	-934.2	-840.9	-842.3
Credit	123.9	181.2	265.5	170.2	485.2	301.5	448.0	667.7	806.9
Debit	-520.6	-863.7	-680.4	-1,002.9	-816.1	-1,230.8	-1,382.2	-1,508.5	-1,649.2
Current transfers (net)	3,251.3	3,777.2	3,537.8	4,180.4	3,865.9	4,527.2	4,948.4	5,357.9	5,773.2
Private (net)	3,191.3	3,450.1	3,495.7	3,927.4	3,825.2	4,287.2	4,687.4	5,072.3	5,486.8
of which: remittances	1,431.6	1,440.8	1,593.5	1,583.6	1,779.7	1,768.0	1,974.5	2,148.0	2,329.6
Official (net)	59.9	327.1	42.1	253.0	40.7	240.0	260.9	285.6	286.4
Capital and financial account	**6,743.6**	**7,732.0**	**5,391.6**	**5,815.9**	**6,251.5**	**7,213.7**	**7,513.1**	**7,227.9**	**7,678.4**
Capital account (incl. capital transfers)	**277.7**	**23.9**	**241.7**	**233.7**	**219.2**	**209.7**	**233.5**	**259.3**	**287.0**
Financial account	**6,465.9**	**7,708.1**	**5,149.9**	**5,582.2**	**6,032.3**	**7,003.9**	**7,279.6**	**6,968.5**	**7,391.5**
Net FDI	674.5	1,078.5	1,128.8	1,653.1	1,428.2	2,127.4	2,583.3	2,674.9	2,892.7
In Kenya	1,186.0	1,050.7	1,507.7	1,436.6	1,928.0	1,844.1	2,207.4	2,383.0	2,575.7
Abroad	-511.5	27.8	-378.9	216.5	-499.8	283.3	375.9	291.9	317.0
Net portfolio investment	2,963.8	3,649.0	631.0	1,183.4	831.2	841.6	1,466.7	1,811.8	2,209.7
Liabilities	3,022.4	3,704.3	682.0	1,241.0	889.6	904.1	1,532.4	1,878.8	2,277.9
Assets	-58.6	-55.4	-51.0	-57.5	-58.5	-62.6	-65.8	-67.1	-68.2
Net other investment	2,827.5	2,243.6	3,390.1	2,745.7	3,772.9	4,034.9	3,229.6	2,481.8	2,289.0
Official, medium and long-term	346.0	192.4	2,035.3	2,023.9	2,541.8	2,105.8	1,891.4	1,661.2	1,338.9
Inflows	1,483.7	1,344.5	2,416.2	2,353.7	3,013.6	2,433.2	2,266.4	2,118.0	1,969.7
Outflows	-1,137.6	-1,152.1	-380.9	-329.7	-471.8	-327.4	-375.0	-456.9	-630.8
Private, medium and long-term	1,217.2	-1,215.7	639.8	759.6	681.1	1,004.1	263.2	-128.5	-275.3
Energy financing	112.5	112.2	120.4	116.9	128.9	125.7	135.4	109.0	117.2
Kenya Airways	484.8	484.8	-162.4	-162.4	-232.0	-232.0	-334.2	-543.9	-596.4
Other	619.9	-1,812.7	681.9	805.1	784.1	1,110.4	462.0	306.4	203.9
Short-term capital	1,264.3	3,266.9	715.0	-37.8	550.0	925.0	1,075.0	949.2	1,225.4
Errors and omissions	0.0	737.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**1,500.1**	**1,392.6**	**522.6**	**-372.4**	**925.1**	**562.1**	**1,821.6**	**1,328.6**	**1,290.6**
Financing items	**-1,500.1**	**-1,392.6**	**-522.6**	**372.4**	**-925.1**	**-562.1**	**-1,821.6**	**-1,328.6**	**-1,290.6**
Reserve assets (gross)	-1,419.8	-1,334.7	-450.0	444.9	-807.8	-444.7	-1,657.6	-1,176.1	-1,185.7
Use of Fund credit and loans to the Fund (net)	-80.3	-57.8	-72.6	-72.6	-117.3	-117.3	-164.0	-152.5	-105.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-80.3	-57.8	-72.6	-72.6	-117.3	-117.3	-164.0	-152.5	-105.0
Memorandum items:									
Gross official reserves (end of period)	7,980.0	7,894.9	8,430.0	7,450.0	9,237.8	7,600.0	8,234.2	9,210.6	10,261.5
(in months of following year's imports of goods and services)	4.6	4.5	4.4	4.0	4.4	3.9	3.9	4.0	4.1
(in months of 3-year-rolling average imports) [2]	5.1	5.0	5.1	4.5	5.2	4.3	4.4	4.7	4.8
(in percent of M3)	34.5	33.9	31.6	27.6	29.6	24.4	22.7	21.9	21.2
WEO oil price (APSP; US$)	96.3	96.2	56.7	56.2	63.9	59.6	63.3	66.7	68.4
Change in the terms of trade (goods and services, percent)	3.1	-3.1	24.4	9.4	-3.1	0.8	0.6	-0.9	-0.7

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Includes oil exploration-related machinery and equipment.

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

Table 4d. Kenya: Balance of Payments 2014–19

(in percent of GDP)

	2014		2015		2016		2017	2018	2019
	Prog.	Act.	Prog.	Proj.	Prog.	Proj.		Projections	
Current account	-8.6	-10.4	-7.3	-9.8	-7.1	-9.7	-7.4	-6.9	-6.8
Excluding official transfers	-8.7	-10.9	-7.3	-10.2	-7.2	-10.0	-7.8	-7.3	-7.1
Exports, f.o.b.	9.9	10.2	9.7	10.4	9.7	10.1	10.0	10.0	9.9
Coffee	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Tea	1.7	1.8	1.8	2.0	1.9	2.2	2.1	2.1	2.1
Horticulture	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Imports, f.o.b	-28.4	-29.0	-26.8	-28.6	-26.4	-28.1	-26.0	-25.5	-25.1
of which: SGR-related	-0.2	-0.2	-0.6	-1.4	-1.2	-2.5	-0.2	0.0	0.0
Oil	-6.5	-6.3	-4.9	-4.7	-4.6	-4.2	-4.3	-4.4	-4.4
Other nongovernment	-21.7	-22.4	-21.7	-23.6	-21.7	-23.6	-21.3	-20.8	-20.4
Power generation-related machinery & aircraft	-2.4	-3.0	-1.4	-2.1	-1.2	-1.5	-1.6	-1.4	-1.3
Other capital imports [1]	-6.7	-6.6	-7.7	-7.6	-8.0	-8.4	-7.2	-6.9	-6.8
Balance on goods	-18.5	-18.9	-17.1	-18.2	-16.8	-18.0	-15.9	-15.5	-15.2
Balance on services	5.2	3.4	5.2	3.2	4.9	3.1	3.3	3.2	3.2
Credit	9.5	8.1	9.4	7.9	9.3	7.8	7.7	7.5	7.4
Transportation	3.8	3.6	3.8	3.7	3.9	3.5	3.5	3.5	3.4
Foreign travel credit	1.3	1.3	1.3	1.1	1.3	1.2	1.2	1.2	1.2
Debit	-4.3	-4.7	-4.3	-4.8	-4.4	-4.6	-4.4	-4.3	-4.2
Transportation	-2.1	-2.5	-2.0	-2.5	-2.0	-2.4	-2.2	-2.1	-2.1
Balance on goods and services	-13.3	-15.5	-11.9	-15.1	-11.8	-14.9	-12.6	-12.2	-12.0
Income (net)	-0.7	-1.1	-0.6	-1.3	-0.4	-1.3	-1.2	-1.0	-0.9
Credit	0.2	0.3	0.4	0.3	0.6	0.4	0.6	0.8	0.9
Debit	-0.9	-1.4	-1.0	-1.6	-1.1	-1.8	-1.8	-1.8	-1.7
Current transfers (net)	5.3	6.2	5.3	6.6	5.2	6.6	6.4	6.3	6.1
Private (net)	5.2	5.7	5.2	6.2	5.1	6.2	6.1	5.9	5.8
of which: remittances	2.4	2.4	2.4	2.5	2.4	2.6	2.6	2.5	2.5
Official (net)	0.1	0.5	0.1	0.4	0.1	0.3	0.3	0.3	0.3
Capital and financial account	11.1	12.7	8.1	9.2	8.4	10.5	9.8	8.5	8.1
Capital account (incl. capital transfers)	0.5	0.0	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Of which: capital transfers	0.5	0.0	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Financial account	10.6	12.6	7.7	8.8	8.1	10.2	9.5	8.2	7.8
Net FDI	1.1	1.8	1.7	2.6	1.9	3.1	3.4	3.1	3.1
In Kenya	1.9	1.7	2.3	2.3	2.6	2.7	2.9	2.8	2.7
Abroad	-0.8	0.0	-0.6	0.3	-0.7	0.4	0.5	0.3	0.3
Net portfolio investment	4.9	6.0	0.9	1.9	1.1	1.2	1.9	2.1	2.3
Liabilities	5.0	6.1	1.0	2.0	1.2	1.3	2.0	2.2	2.4
Assets	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net other investment	4.6	3.7	5.1	4.3	5.0	5.9	4.2	2.9	2.4
Official, medium and long-term	0.6	0.3	3.0	3.2	3.4	3.1	2.5	1.9	1.4
Inflows	2.4	2.2	3.6	3.7	4.0	3.5	3.0	2.5	2.1
Outflows	-1.9	-1.9	-0.6	-0.5	-0.6	-0.5	-0.5	-0.5	-0.7
Private, medium and long-term	2.0	-2.0	1.0	1.2	0.9	1.5	0.3	-0.2	-0.3
Energy financing	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Kenya Airways	0.8	0.8	-0.2	-0.3	-0.3	-0.3	-0.4	-0.6	-0.6
Other	1.0	-3.0	1.0	1.3	1.0	1.6	0.6	0.4	0.2
Short-term capital	2.1	5.4	1.1	-0.1	0.7	1.3	1.4	1.1	1.3
Errors and omissions	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.5	2.3	0.8	-0.6	1.2	0.8	2.4	1.6	1.4
Financing items	-2.5	-2.3	-0.8	0.6	-1.2	-0.8	-2.4	-1.6	-1.4
Reserve assets (gross)	-2.3	-2.2	-0.7	0.7	-1.1	-0.6	-2.2	-1.4	-1.3
Use of Fund credit and loans to the Fund (net)	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Memorandum items:									
Gross official reserves (end of period)	13.1	13.0	12.6	11.8	12.3	11.0	10.7	10.8	10.9
Exports of goods and nonfactor services	19.3	18.2	19.1	18.4	19.0	17.9	17.7	17.5	17.3
Imports of goods and nonfactor services	-32.6	-33.7	-31.0	-33.4	-30.8	-32.8	-30.3	-29.7	-29.3

Sources: Kenyan authorities; and staff estimates and projections.

[1] Includes oil exploration-related machinery and equipment.

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

	Dec-10	Dec-11	Dec-12	Dec-13	Jun-14	Dec-14	Mar-15	Jun-15
				(Percent)				
Capital adequacy								
Regulatory capital to risk-weighted assets	20.8	19.4	21.9	23.2	17.6	19.2	19.2	18.9
Regulatory tier 1 capital to risk-weighted assets	18.7	17.3	18.9	19.4	15.1	15.9	16.2	15.7
Total capital to total assets	15.6	15.5	16.3	17.1	17.3	17.9	18.4	17.7
Asset quality								
Non performing loans to total gross loans	6.2	4.4	4.5	5.0	5.8	5.4	5.7	5.7
Bank provisions to NPLs	75.3	82.2	80.9	70.7	62.0	65.0	65.8	64.1
Non performing loans net of provisions to capital	6.4	3.5	3.5	5.8	9.0	7.4	7.6	8.1
Earning assets to total assets	88.8	87.8	87.4	88.9	88.6	88.2	88.8	87.5
Earning and profitability								
Return on assets (ROA)	3.7	3.3	3.8	3.6	3.7	3.4	3.5	3.3
Return on equity (ROE)	30.7	32.2	34.2	28.9	30.9	26.5	27.9	28.3
Interest margin to gross income	34.7	38.6	32.7	37.2	35.9	36.0	36.2	35.6
Non interest expenses to gross income	48.2	44.6	37.8	41.7	39.9	40.9	39.1	38.9
Liquidity								
Liquid assets to total assets	38.4	33.3	35.2	34.3	32.3	32.7	33.1	32.2
Liquid assets to short-term liabilities	44.5	37.0	41.9	38.6	38.7	37.7	39.9	38.7
liquid assets to total deposits	51.0	43.8	46.8	47.0	44.4	45.2	46.0	44.7
Total loans to total deposits	72.5	77.4	76.9	80.4	82.6	83.7	83.9	83.5
Sensitivity to market risk								
Net open position in foreign exchange to capital	4.3	3.3	2.6	2.2	2.9	4.3	3.7	2.9
Interest bearing assets to interest bearing liabilities	117.8	115.4	116.2	121.6	121.7	122.1	123.3	121.5
FX currency denominated assets to total assets	10.6	11.8	13.2	13.7	15.0	15.4	15.6	16.4
FX currency denominated liabilities to total liabilities	17.1	21.5	20.9	22.9	22.0	22.6	23.0	23.5
Spread between lending and deposit rate	9.3	8.4	10.3	8.9	8.5	8.0	8.3	7.9

Source: Central Bank of Kenya.

Table 6. Kenya: Schedule of Reviews and Available Purchases, 2015–16

Availability Date	Condition	Available Purchases under the SBA		Available Loans under the SCF		Total Available Purchases and Loans	
		(SDR millions)	(Percent of quota)	(SDR millions)	(Percent of quota)	(SDR millions)	(Percent of quota)
February 2, 2015	Approve the 12-month SCF and SBA arrangements	271.40	100.0	108.56	40.0	379.96	140.0
July 15, 2015	Completion of the first SCF-SBA review based on end-March 2015 performance criteria	40.71	15.0	13.57	5.0	54.28	20.0
January 20, 2016	Completion of the second SCF-SBA review based on end-September 2015 performance criteria	40.71	15.0	13.57	5.0	54.28	20.0
Total available		352.82	130.0	135.70	50.0	488.52	180.0

Source: IMF staff estimates.

Table 7. Kenya: Indicators of Fund Credit

(in millions of SDRs)

				Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund obligations based on existing credit									
(In millions of SDRs)									
Principal	21.1	48.7	85.8	103.3	111.3	97.7	91.2	50.3	21.6
Charges and interest [1]	0.1	0.1	0.3	0.2	0.9	0.7	0.4	0.2	0.2
Obligations to the Fund from existing and prospective credit [2]									
(In millions of SDRs)	23.1	52.6	90.1	146.5	300.6	267.4	127.2	81.0	52.0
Principal	21.1	48.7	85.8	142.3	296.2	265.3	126.4	80.5	51.7
Stand-by Arrangements (SBA)	0.0	0.0	0.0	39.0	171.3	137.4	5.1	0.0	0.0
ESF Rapid Access Component (RAC)	13.6	27.1	27.1	27.1	13.6	0.0	0.0	0.0	0.0
ECF Arrangements	7.5	21.5	58.6	76.1	97.7	97.7	91.2	50.3	21.6
SCF Arrangements	0.0	0.0	0.0	0.0	13.6	30.2	30.2	30.2	30.2
Charges and interest [1]	2.0	3.9	4.3	4.2	4.4	2.2	0.8	0.5	0.2
Obligations to the Fund from existing and prospective credit [1]									
In millions of U.S. dollars	32.2	73.2	125.4	204.1	418.7	372.5	177.2	112.8	72.4
In percent of gross international reserves	0.4	1.0	1.5	2.2	4.1	3.3	1.4	0.8	0.5
In percent of exports of goods and services	0.3	0.6	0.9	1.4	2.6	2.1	0.9	0.5	0.3
In percent of GDP	0.1	0.1	0.2	0.2	0.4	0.4	0.2	0.1	0.1
In percent of quota	8.5	19.4	33.2	54.0	110.7	98.5	46.9	29.8	19.1
Outstanding Fund credit based on existing drawings (end-of-period, all PRGT)									
In millions of SDRs	609.8	561.1	475.4	372.1	260.8	163.1	71.9	21.6	0.0
In percent of quota	224.7	206.7	175.2	137.1	96.1	60.1	26.5	8.0	0.0
Outstanding Fund credit based on existing and prospective drawings (end-of-period) [2]									
In millions of SDRs	1,044.0	1,049.6	963.9	821.6	525.4	260.2	133.7	53.2	1.5
In millions of U.S. dollars	1,454.3	1,462.1	1,342.7	1,144.5	731.9	362.4	186.3	74.2	2.1
In percent of gross international reserves	19.5	19.2	16.3	12.4	7.1	3.2	1.5	0.5	0.0
In percent of exports of goods and services	12.5	11.9	9.9	7.7	4.5	2.0	1.0	0.4	0.0
In percent of GDP	2.3	2.1	1.7	1.3	0.8	0.3	0.2	0.1	0.0
In percent of quota	384.7	386.7	355.2	302.7	193.6	95.9	49.3	19.6	0.6
General Resources Account	115.0	130.0	130.0	115.6	52.5	1.9	0.0	0.0	0.0
Poverty Reduction and Growth Trust	269.7	256.7	225.2	187.1	141.1	94.0	49.3	19.6	0.6
Memorandum items:									
Nominal GDP (in billions of U.S. dollars)	63.3	68.9	76.8	85.3	94.3	104.0	114.6	126.2	138.8
Exports of goods and services (in billions of U.S. dollars)	11.6	12.3	13.6	14.9	16.3	17.7	19.3	21.1	23.0
Gross international reserves (in billions of U.S. dollars)	7.5	7.6	8.2	9.2	10.3	11.2	12.5	13.7	14.9
Quota (in millions of SDRs)	271.4	271.4	271.4	271.4	271.4	271.4	271.4	271.4	271.4

Sources: Fund staff estimates; and projections.

[1] PRGT interest is waived through end-2016.

[2] Assumes access of 180 percent of quota during 2015–16 and semi-annual disbursements.

Table 8. Kenya: External Financing Requirements and Sources, 2012–19

	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Projections				
				(In millions of U.S. dollars)				
Total requirements	-4,840.9	-5,657.1	-8,627.8	-7,584.7	-8,178.1	-7,436.2	-7,847.9	-7,855.0
Current account deficit	-4,255.0	-4,871.7	-6,339.4	-6,188.2	-6,651.6	-5,691.5	-5,899.3	-6,387.8
Capital outflows: repayments of MLT loans	-585.8	-785.4	-2,288.4	-1,396.5	-1,526.5	-1,744.8	-1,948.7	-2,217.1
Capital outflows: portfolio investment (sovereign bond)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	750.0
Total sources	4,840.9	5,657.1	8,627.8	7,584.7	8,178.1	7,436.2	7,847.9	7,855.0
Capital inflows	6,063.0	6,342.4	10,020.4	7,212.4	8,740.2	9,257.9	9,176.5	9,145.6
Public sector	1,709.7	1,031.8	4,118.5	3,337.3	2,643.0	2,999.9	2,977.3	3,756.7
Project grants	235.3	97.7	23.9	233.7	209.7	233.5	259.3	287.0
Long-term loan disbursements to public sector	1,474.4	934.1	1,344.5	2,353.7	2,433.2	2,266.4	2,118.0	1,969.7
Portfolio investment (sovereign bond)	0.0	0.0	2,750.0	750.0	0.0	500.0	600.0	1,500.0
Private sector	4,353.3	5,310.6	5,902.0	3,875.0	6,097.2	6,257.9	6,199.2	5,388.9
Foreign direct investment in Kenya	258.6	514.4	1,050.7	1,436.6	1,844.1	2,207.4	2,383.0	2,575.7
Long-term loan disbursements to private sector	1,244.5	1,341.0	1,487.6	1,545.1	1,681.2	1,873.8	2,081.4	2,302.1
Other net inflows (including errors and omissions)	2,850.2	3,455.2	3,363.7	893.4	2,572.0	2,176.7	1,734.8	511.1
Financing	-1,222.2	-685.3	-1,392.6	372.4	-562.1	-1,821.6	-1,328.6	-1,290.6
IMF (net)	193.2	173.0	-57.8	-72.6	-117.3	-164.0	-152.5	-105.0
Disbursements	221.7	218.6	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-28.5	-45.6	-57.8	-72.6	-117.3	-164.0	-152.5	-105.0
Change in reserves (-increase)	-1,415.3	-858.3	-1,334.7	444.9	-444.7	-1,657.6	-1,176.1	-1,185.7
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)				
Total requirements	-9.6	-10.3	-14.2	-12.0	-11.9	-9.7	-9.2	-8.3
Total sources	9.6	10.3	14.2	12.0	11.9	9.7	9.2	8.3
Capital inflows	12.0	11.5	16.4	11.4	12.7	12.1	10.8	9.7
Exceptional financing	0.4	0.3	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1
Change in reserves (-increase)	-2.8	-1.6	-2.2	0.7	-0.6	-2.2	-1.4	-1.3

Sources: Kenyan authorities and IMF staff estimates and projections.

Letter of Intent

Nairobi, Kenya
August 31, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Ms. Lagarde:

1. Kenya's macroeconomic performance remains strong in the face of headwinds, supported by significant infrastructure investments, mining, and lower energy prices. Growth remains robust, despite the adverse impact on tourism on account of the prevailing security challenges. Inflation is within our target band, thanks to the coming on stream of low-cost geothermal energy and lower oil prices, and despite the impact of higher food prices in early 2015. The Shilling has depreciated against the US dollar mostly in response to global market developments, and its volatility has increased reflecting lower net capital inflows to our domestic market, similar to those observed in other emerging/frontier economies. The current level of foreign exchange reserves, backstopped by the precautionary program with the IMF, continues to provide an adequate cushion against exogenous shocks.

2. Performance under our economic program supported by the Stand-By Arrangement (SBA) and the Standby Credit Facility (SCF) arrangement has been broadly in line with program targets. We met all quantitative performance criteria and indicative targets under the program through end-March 2015 (Table 1), with the exception of temporary delays in the repayment of some external obligations resulting in the nonobservance of the continuous performance criterion on external arrears. These obligations were fully settled, and we have taken corrective measures to avoid any recurrence of such delays. We are therefore requesting waivers under both arrangements for this temporary non-observance. Reflecting the tapering of capital flows that started in April, the end-June indicative target on NIR was missed, as was the indicative target on the net domestic assets of the CBK. All other end-June indicative targets were met. In addition we have made significant progress in structural reforms, and we plan to address implementation delays by adhering to time-bound action plans to streamline the government's payroll, strengthening the Debt Management Office, submitting the new CBK Bill to parliament, and by implementing the Treasury Single Account (Tables 2 and 3). Consistent with our program commitments, we are bolstering CBK's ability to conduct stress testing and continue to further strengthen its supervisory framework, with a view to safeguard financial stability.

3. Reflecting our continued prudent macroeconomic policies and structural reforms together with substantial public investment, we expect an acceleration of economic growth in 2015. Nevertheless, external developments and domestic events—especially the high volatility in global markets and

continued domestic security challenges—have put pressure on the foreign exchange market and public spending. In order to address these challenges, we maintained tight liquidity conditions in the money market by raising interest rates on longer-maturity instruments for Central Bank operations, and occasional sale of foreign exchange to smooth excessive exchange rate volatility. The Monetary Policy Committee raised the Central Bank Rate (CBR) by 150 basis points in June 2015, and by a further 150 basis points in July 2015.

4. As the impact of the above external and domestic shocks has proved persistent, a modest modification of the macroeconomic framework and quantitative targets under the program is warranted. We therefore request modification of the end-September 2015 performance criteria and of end-December 2015 indicative targets for net international reserves, net domestic assets, and the primary budget balance of the central government (Table 1).

5. Given our strong program implementation to date and the policy priorities outlined in the attached update of the Memorandum of Economic and Financial Policies (MEFP), we request completion of the first review under the SBA and SCF arrangements. In addition, given the continued low risk of external debt distress, we request the elimination of the performance criterion on contracting and guaranteeing of non-concessional external debt by the national government.

6. We intend to continue treating both arrangements as precautionary, and will only draw under these arrangements when an actual balance of payment need materializes. The second review under the SBA and the SCF arrangements will reassess the situation as well as program performance at the end-September 2015 test date. The second review is expected to be completed in January 2016.

7. The policies set out in the attached MEFP will enable us to achieve our program objectives, which remain unchanged. We will take any further measures that may become necessary for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will provide such information as the IMF may request in connection with progress in implementing our economic and financial policies. We authorize the publication of the staff report for the first review of the SBA/SCF-supported program, this letter of intent, and the attached MEFP and technical memorandum of understanding.

Sincerely yours,

/s/
Henry Rotich
Cabinet Secretary
The National Treasury

/s/
Patrick Njoroge
Governor
Central Bank of Kenya

Attachments:
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. DEVELOPMENTS UNDER THE PROGRAM

1. **Our economy has continued to perform well**. Real GDP grew by 5.3 percent in 2014, mainly driven by performance in mining and quarrying, electricity supply, construction, information and communication, finance and insurance and transport and storage sectors. The economy is estimated to expand at a robust pace in 2015, supported by strong private sector demand, and rising public investments, including a faster-than-expected execution of the Standard Gauge Railway (a major regional project). At the same time, the accommodation and food services sectors have been adversely affected by prevailing security threats that have discouraged tourist arrivals, while agricultural production has remained weak in the first quarter of 2015. Inflation has trended upward in recent months, reaching about 7 percent in June.

2. **The current account deficit widened to 10.4 percent of GDP in 2014, reflecting sizable imports of capital equipment and an acceleration of external services imports**. On the other hand the capital and financial flows recorded net inflows amounting to 12.5 percent of GDP in 2014, resulting in overall balance of payments surplus of about 2.2 percent of GDP, compared with 2.5 percent under the original program projections.

3. **That said, economic policy management and implementation of reforms under the program has been affected by the onset of external and domestic shocks.** Rising volatility in global markets in recent months, lower export prices, and the Garissa terrorist attack in April 2015 have adversely affected capital inflows and receipts from merchandise exports and tourism. These have contributed to a depreciation of the shilling and increased volatility in the foreign exchange market in recent months. To stabilize inflationary expectations and contain the second round effect of the weaker shilling on wages and prices, the CBK raised the Central Bank Rate (CBR) twice (in June and July 2015) by a cumulative 300 basis points to 11.5 percent and the interest rates on longer-maturity instruments for Central Bank liquidity operations by 250 basis points above CBR (see ¶15 below). Limited use of our international reserves buffer was aimed at smoothing exchange rate volatility. In addition, to effectively address the security threats, we have accelerated security-related spending, which has contributed to fiscal pressures in FY2014/15 (see ¶6 below).

II. PROGRAM POLICIES

A. Program Objectives

4. **Our main policy objectives continue to focus on maintaining macroeconomic stability, while at the same time sustaining infrastructure investments, deepening structural and governance reforms, improving security conditions and supporting devolution.** Progress in these areas would help strengthen the business environment, encouraging in turn innovation, investment, growth and expansion of economic and

employment opportunities in Kenya. The Fund-supported program continues to provide a policy anchor to implement our ambitious reform program, which has the following objectives:

- ***Fiscal policy***. Adhering to medium-term debt targets, while preserving room to implement an ambitious public investment program aimed at reducing social and infrastructure gaps, minimizing vulnerabilities to weather-related shocks, and supporting devolution.

- ***Public financial management***. Taking decisive steps to (i) increase the efficiency, effectiveness, transparency and accountability in the use of public resources, and (ii) contain fiscal risks arising especially from the fast-track devolution rollout and contingent liabilities.

- ***Monetary policy***. Achieving inflation rate within the target band of 5±2.5 percent, and further improving the monetary policy framework to facilitate the transition towards a fully-fledged inflation targeting framework.

- ***Financial stability***. Enhancing prudential oversight to address potential vulnerabilities including those arising from foreign currency exposure risks and cross-border expansion by Kenyan banks.

- ***Business environment.*** Creating a more favorable business environment, including by strengthening security, deepening structural and governance reforms to improve the cost of doing business, thus boosting investments and employment creation.

- ***Data provision***. Improving data quality to support economic policy making and facilitate transition to frontier/emerging market status.

B. Macroeconomic Framework

5. In light of the adverse impact that the above shocks are having on our economy, modest revisions to the macroeconomic framework for the program are warranted. For 2015, the proposed modifications include (i) somewhat lower GDP growth, reflecting the adverse impact of security challenges on the tourism sector; (ii) higher inflation, as a result of the pass-through to prices of the recent exchange rate depreciation and a slight pickup in global fuel prices; and (iii) a weaker balance of payments, in light of a modest deterioration in export prices, depressed tourism and weaker financial inflows from the ongoing volatility in global markets, resulting in lower international reserves. Risks to these projections remain on the downside, especially if global growth weakens further, and/or pressures in the foreign exchange market persist.

C. Fiscal Policy

6. Program policy objectives. Our fiscal anchor remains maintaining gross public debt below 45 percent of GDP in present value terms, and we are committed to gradually bringing the fiscal deficit over the medium term towards the EAMU's convergence criteria of 3 percent of GDP. This requires containing current spending and mobilizing additional revenues, with a view to preserving room for much-needed social and infrastructure spending aimed at supporting faster and more inclusive growth.

7. Fiscal performance in FY2014/15. We have faced several challenges implementing the 2014/15 budget. Revenue collection has been weaker than projected, reflecting mainly lower-than-expected income tax and VAT collection, and challenges in the full implementation of the capital gains tax. In addition, we have encountered pressures on other current spending, reflecting to a large extent the need for higher security-related outlays in response to recent security and terrorism events. On the positive side, the execution of the Standard Gauge Railway (SGR) has proceeded faster than expected, resulting in a front loading of development spending of about 0.8 percent of GDP. To contain the pressure on the fiscal deficit and financing from the aforementioned factors, we stopped new commitments by ministries and other agencies as of June 8, 2015. These measures allowed us to meet the indicative target on the primary fiscal deficit excluding SGR-related spending for end-June 2015 (Table 1).

8. The 2015/16 budget. The 2015/16 budget targets a primary fiscal deficit of 5.3 percent of GDP in 2015/16, striking an appropriate balance between the support for rapid and inclusive growth and fiscal discipline to maintain debt sustainability and remain consistent with financing constraints. We are confident that the policies outlined below are sufficient to achieve our fiscal objectives for 2015/16. Nevertheless, we are committed to take additional corrective measures if the fiscal outturn through end-2015 falls short of program targets.

- ***Revenue mobilization***. We have taken concrete steps to collect additional revenue, through a wide range of revenue yielding corrective measures as well as new policy initiatives expected to yield about Ksh 63.64 billion or 1.0 percent of GDP. This includes Ksh 28.44 billion from the modernized Excise duty Act 2015, adopted by Parliament in August that raises specific excises on cigarettes, alcoholic beverages, motor vehicles and motor cycles, and fuels; Ksh 5.0 billion from recent amendments to the Income Tax Act that replaced Capital Gains Tax with a withholding tax on the transaction value of the shares; Ksh 8.1 billion from higher VAT revenue reflecting expected improved compliance from identified non-filers via the new iTax; Ksh 3.0 billion from the expected improvement in compliance on customs revenues following the recent adoption of the Electronic Single Window declaration module; Ksh 4.1 billion from Real Estate from a simplified 12 percent tax on gross rental income of individuals; Ksh 10.0 billion from expected improvement in compliance from Pay-As-You-Earn (PAYE) ; and Ksh 5.0 billion from a newly introduced levy on identity verification queries to the Integrated Population Registration System (IPRS).

- ***Development spending***. This year's budget includes higher allocations to support critical infrastructure projects in roads, irrigation, the Standard Gauge Railway, ports, security, and energy. As a result, development spending as a share of total national government spending is set to increase to over 41 percent in 2015/16 compared to 29 percent in 2013/14, and an estimated 36 percent in 2014/15.

- ***Recurrent spending***. We will continue to contain current spending, especially on wages, while maintaining high priority social spending. In particular, we will streamline the national government payroll following the identification of ghost workers and redundancies by a recent biometric personnel audit. We will also extend to 2015/16 the freeze on new recruitment (except for exceptional services such as security, health and education) that was introduced in FY2014/15. These actions would allow us to continue reducing wage spending to 5.1 percent of GDP in 2015/16 (compared to 5.6 percent in 2013/14). We also plan to conduct a biometric personnel audit for counties and semi-autonomous government agencies. At the same time, security-related recurrent spending will increase in 2015/16 to boost our counter-terrorism capabilities to effectively deal with heightened security threats.

9. **Devolution**. We are taking steps to strengthen accountability and fiscal discipline in the use of devolved resources, to achieve our constitutional objectives of improving service delivery and enhancing equitable economic development at the county level. This includes implementation starting in June 2015 of a framework establishing limits and guidelines for borrowing by county governments consistent with the PFM Act. The safeguards included in this framework will help contain fiscal risks and ensure public debt sustainability. We will complete an audit of outstanding county assets and liabilities by end-December 2015 (proposed resetting of the end-September 2015 **structural benchmark**). Further, we are implementing a strategy to enhance revenue management by counties to strengthen their revenue raising measures and correct duplication and distortions in local taxes and fees that hurt the business environment. Based on the positive experience in the introduction of the county borrowing framework, we are organizing a conference to discuss the international experience in these matters before October 2015. In addition, the national government continues to support capacity building at the county level, in particular on improving revenue collection, including by automating county revenue collection and leveraging the Kenya Revenue Authority's (KRA) infrastructure.

10. **Staff rationalization**. The Government approved in August a plan to continue implementation of the Capacity Assessment and Rationalization of the Public Service (CARPS) program (end-March 2015 **structural benchmark** under the program), aiming at a significant rationalization of the public service to ensure that government functions are properly structured and staffed to facilitate public service delivery at the national and county levels. The next phase of the program entails the start up of a process of rationalization and redeployment, which would entail the following key steps in the period July-December 2015:

- Continue with the hiring freeze except for exceptional cases approved by the Cabinet Secretary for Devolution and Planning and the Cabinet Secretary for the Treasury.
- Establish legal and pension frameworks that allow transfer of staff among counties and between ministries and counties.
- Renew contracts of staff only in cases clearly identified in the new government structure.
- Establish options and incentives for voluntary separation to address structural problems with capacity and performance of public service, with a clearly specified budget for accelerated benefits, early exit compensations, and other facilities.

- Establish a joint ministerial-county committee to oversee the rationalization and redeployment process.

11. Public finance management. To contain and manage fiscal risks from contingent liabilities beyond those associated with devolution, we reported in the 2015 Medium-Term Budget Policy Statement on all commitments and obligations under all existing PPPs and guarantees, meeting the end-March structural benchmark. We have also adopted a new risk and exposure assessment framework under the Public Private Partnership (PPP) program. We have established a link between the PPP unit and the Debt Management Office to exchange information on the treatment of contingent liabilities arising from the projects as they reach execution stage.

12. Debt Management. We will leverage on the Commonwealth Secretariat Debt Recording and Management System (CSDRMS) to derive loan repayment obligations as they fall due, without the need to wait for invoices from lenders and make the request for release of funds. The payment process will start 30 days before the due date to allow for internal approvals by National Treasury and Controller of Budget, and eventual payment by CBK well before the due date. As a reset **structural benchmark** for end-September, we will also introduce the following measures to strengthen Debt Management Office:

- Fill the position of Director General of the Directorate of Public Debt Management.
- Appoint Directors assigned full time to the DMO.
- To ensure timely repayment of external obligations, the DMO will (i) elevate to the cabinet secretary a quarterly report with all obligations coming due, (ii) use the Commonwealth Secretariat Debt Recording and Management System as the basis for auditing debt repayments instead of relying on the invoices, and (iii) start the automation of internal processes between different units involved in processing debt payments.
- Initiate the process of separating front, middle and back office functions, with technical assistance from the Fund. In particular, we will assign staff in the DMD middle office to manage risk and compliance issues; identify the number of staff needed for front, middle, and back office functions; and ensure deployment of necessary personnel to cover these functions.
- Incorporate cost/risk analysis of the borrowing operations, steered by targets established in the debt-management strategy. The analysis will also be extended to new contingent liabilities and PPP projects.
- Auction plans including dates and instruments will be published at least a month ahead. DMO representative at the auction would be responsible for implementing the monthly plans and will be empowered to decide on deviations of the plan in case market conditions change significantly.

- Include in the next Annual Public Debt Report an evaluation of how the government debt management activities have complied with the debt management strategy.

13. Treasury Single Account. We are making significant progress in improving the efficiency of the government cash management and payment processes and in extending the coverage of the IFMIS/Internet banking and financial reporting to include all key government entities with accounts at the CBK. This will lay the foundations for enhanced cash management practices in preparation for the full adoption of the Treasury Single Account (TSA). The full TSA implementation will entail the automation of cash planning and exchequer release process and consolidation of the government bank accounts balances at the CBK on a daily basis. The consolidation will provide the basis of calculating interest on the net government cash position, net of the overdraft balance. The assessment of the TSA system to be adopted in Kenya required a longer-than-anticipated initial phase of institutional coordination, requiring a resetting of the end-June 2015 structural benchmark under the program. We have now taken the decision to adopt a sub-account structure TSA model, which is in line with our PFM legal and institutional framework. In that regard, we commit, as a **reset structural benchmark** under the program, by end-September to: (i) complete the migration of the National Government voted MDAs to IFMIS and internet banking, with the exception of the security agencies. This will allow the National Treasury and the CBK access to information in real time about the availability of idle resources in spending units; (ii) capture exchequer transactions, debt payments and other Consolidated Fund Services transactions in IFMIS to be able to generate reports of revenues, payments and bank balances upon request; (iii) reach a Service Level Agreement between the National Treasury and the CBK that would govern the agency operations including overdraft and interest calculations, service fees and other charges arising from their financial relations in anticipation of the likely reduction in reliance on overdraft and interest paid thereon; and (iv) start automating the Exchequer release process, enabling timely transfers, payments and account reconciliations.

14. Parastatal reform. We continue to upgrade the regulatory framework governing our parastatal sector. To that effect, a Code of Governance was approved in January 2015 by Presidential Executive Order. This Code has introduced a framework guiding appointments, and improving accountability in state-owned corporations. The Government Owned Entities Bill has been submitted to the Cabinet, and the Sovereign Wealth Fund Bill is being reviewed by the Attorney General before submission for final cabinet discussion. We also initiated the process of merger of parastatal entities, starting from the agricultural sector, bringing down the research and regulatory parastatals in the sector from 12 to 2.

D. Monetary Policy

15. Program policy objectives. We reaffirm the key objective of keeping headline inflation in the medium term at the midpoint of our target range (5±2.5 percent), in the context of a floating exchange rate regime. We will continue to monitor developments in the foreign exchange market and intervene only to mitigate excess volatility, while maintaining adequate reserve buffers to protect the economy in the event of further exogenous shocks.

16. Monetary policy stance. The CBK remains vigilant against inflationary pressures. Consistent with a forward looking monetary policy framework, and to support a tightening bias in monetary conditions, the CBK raised in May 2015 the ceiling on CBK liquidity operations for longer-maturity term auction deposit rates from 0 to 250 basis points above the CBR. During the meeting of June 9, 2015, the MPC raised the Central Bank Rate (CBR) by 150 basis points. This measure is intended to anchor inflation expectations in the presence of continued high food prices, shilling depreciation in the recent months and the partial reversal of oil prices. To mitigate the potential impact of global developments and emerging risks on inflationary expectations, at its meeting on July 7, the MPC raised the CBR further by 150 basis points to 11.5 percent, and also introduced a 3-day repo to further expand the menu of instruments for liquidity management. We are confident that these actions will help contain inflation expectations and moderate second round inflationary effects. We stand ready to take further actions as needed, to keep inflation anchored around the middle of our target band.

17. Monetary policy framework. Consistent with commitments under the program, we have taken a number of steps to further strengthen our monetary policy framework. These include (i) submission to parliament in September of a Central Bank Act/draft Central Bank Bill, which enshrines in legislation the CBK's current policy of prioritizing price stability and strengthens further CBK's operational independence (reset structural benchmark for end-September 2015, Table 3); and (ii) establishment in March 2015 of an inflation modeling and forecasting unit at the CBK, which is providing scenario analysis and other inputs to inform monetary policy decisions. In addition, we plan to increase the frequency of submission by the National Treasury to the CBK of Government cash flow plans to quarterly (rather than annually) starting in July.

E. Financial Sector

18. Program policy objectives. We will continue to safeguard financial stability by further strengthening the financial sector oversight framework, continuing to enforce prudential rules, and by managing risks associated with rising cross-border operations, expansion of banks activities into holding group structures, and increased volatility in the foreign exchange market.

19. Prudential oversight. We have taken a number of steps to further strengthen our banking sector prudential framework and maintain financial stability:

- ***Enhanced bank monitoring and enforcement of prudential rules***. As part of our prudential toolkit, we have recently completed surveying and analyzing banks' loan restructuring activity and their exposure to mortgages, as well as strictly enforcing prudential rules on loan loss provisioning. We will continue to monitor developments in these areas on a regular basis and take appropriate remedial measures as needed. To manage the risks associated with increased volatility in the foreign exchange market, we will analyze the balance sheet risks associated with assets and liabilities denominated in foreign currency by September 2015.

- In order to ensure strong and well capitalized financial institutions, we plan to, among other measures, review the minimum capital requirements. We will also strengthen supervisory and regulatory measures to align institutions capital to their risk profiles.

- ***Stress tests***. With a view to enhance CBK's ability to conduct top-down stress testing of the banking system, we are developing a micro and macro-financial model within a relatively simple, but robust stress-testing methodology that captures the main risks faced by banks operating in Kenya. CBK has undertaken an Organizational Development Review (ODR) to provide an appropriate institutional arrangement for conducting banks' stress testing and developing other macro-prudential tools. With support of Fund TA, we plan to roll out the first set of stress-test results by end-June 2016.

- ***Cross-border and consolidated supervision***. As part of our effort to strengthen consolidated supervision, we currently have operational supervisory colleges for 6 of the largest Kenyan banks operating in the region. With support from AFRITAC East, we have also successfully concluded the host supervision assessment for Uganda and expect to finalize such assessments for all the remaining host countries by end-June 2017.

F. Ease of Doing Business and Data Quality

20. Program policy objectives. Improve the business environment, including by deepening structural and governance reforms, with a view to ease cost of doing business and thus boost investments and employment creation. To facilitate transition towards emerging market status will require, among other things, improving the quality, coverage and timeliness of Kenya's macroeconomic statistics.

21. Improving the business environment and regulatory reforms. We have taken a number of steps that are reducing the cost of doing business in Kenya, including the adoption of (i) streamlined procedures through a new online portal for company and property registration; (ii) online approvals and lower charges for construction permits in Nairobi; (iii) steps that have nearly halved the number of days to obtain electricity (to 78 from 155 days with the goal to reduce further to 30days; (iv) significantly simplified procedures for trading across border; and (v) an alternative simplified contract dispute mechanism in Nairobi.

- Currently, business name search and reservation is being done online through e-Citizen portal and the mobile USSD code. For about 40 percent of the companies registered, it takes only 2 days and for the remaining 60 percent about 12 days compared to 30 days as indicated in the World Bank Doing Business. At the same time, the procedures for registering property have been reduced from 9 to 6.

- The company and Insolvency Bills have been redrafted to take into account comments from Parliament and have been published and resubmitted to Parliament. Once the Company Act is passed, it will be possible to have processes for starting a business from one point. The Registration of Business Service Bill has also been submitted to Parliament.

- The declaration module of the Electronic Single Window is now operational and beginning July 1st 2015, all importers and exporters and other service providers will be required to process their transactions through the system. This will enhance transparency, accountability, and remarkably ease the cost of doing business while at the same time strengthening revenue collection.

- In addition, the online iTax system is now operational and beginning April 2015, tax payers can only file their income tax and VAT returns and online. The iTax will: simplify tax processes and make it easy for Taxpayers to comply; shorten time taken to extract data & information on revenue; reduce time taken by Taxpayers when dealing with KRA; re-engineer business processes for effectiveness & efficiency; and enhance the ability/accuracy of KRA/Taxpayers to account for taxes thereby increasing revenues.

22. Data quality and timeliness. We are making progress on our commitment to improve macroeconomic statistics with a view to subscribing to the Fund's Special Data Dissemination Standard by 2022. To that end, in its 2015 Economic Survey publication, the Kenya National Bureau of Statistics (KNBS) published a BPM6-compliant balance of payments statement and Kenya's first consolidated GFS 2014 estimates for the public corporations, general government sector and its subsectors. In addition, the KNBS recently released the 2012/13 Kenya National Housing Survey results, including a first-ever official unemployment estimate for Kenya (8.1 percent). Moreover, the field work on the Foreign Investor Survey (FIS) for 2015 is currently underway as scheduled, and the results of the survey will be published by September 2015. The FIS data for 2015 and earlier years are expected to be used to publish a BPM6-compliant balance of payments fully integrated with an International Investment Position statement in the 2016 Economic Survey. Finally, the KNBS will commence with the Household Budget Survey in July 2015 with a view of publishing the results by end-2016.

Table 1. Kenya: Quantitative Performance Criteria and Indicative Targets

(in billion of Kenyan Shilling, unless otherwise indicated)

	2014		2015										
			Performance Criteria (PC)/Indicative targets (IT)										
	End-Dec.		End-Mar (PC)				End-June (IT)			End-Sep (PC)		End-Dec (IT)	
	Prog.	Prel.	Prog.	Adj. Prog.	Prel.	Met/Not Met	Prog.	Prel. Est.	Met/Not Met	Prog.	Rev. Prog.	Prog.	Rev. Prog.
Quantitative performance criteria [1]													
Fiscal targets													
Primary budget balance of the national government (-=deficit, floor) [2, 3]	-104.1	-92.3	-171.9	-174.2	-140.3	Met	-209.9	-200.6	Met	-52.9	-78.0	-98.8	-119.6
Monetary targets [4, 5]													
Stock of central bank net international reserves (floor, in millions of US$) [6, 7]	5,909	6,746	5,956	5,956	6,498	Met	6,115	5,920	Not met	6,173	5,308	6,132	5,987
Public debt targets													
Contracting and guaranteeing of all medium and long term nonconcessional external debt by the national government (ceiling, millions of US$) [8, 9]	1,100	1,100	1,100	1,100	873	Met	1,600	873	Met	1,600	Proposed to be eliminated	2,100	Proposed to be eliminated
National government external payment arrears (ceiling, millions of US$) [10]	0	35	0	0	69	Not met	0	69	Not met	0	0	0	0
Monetary policy consultation clause													
Upper band	...	...	7.5	7.5	...	...	7.5	...		7.5	7.5	7.5	7.5
Center inflation target [11]	...	...	5.0	5.0	5.8	Met	5.0	7.0	Met	5.0	5.0	5.0	5.0
Lower band	...	...	2.5	2.5	...	...	2.5	...		2.5	2.5	2.5	2.5
Indicative targets													
Stock of net domestic assets of the central bank (ceiling) [5]	-230	-234	-206	-206	-230	Met	-186	-160	Not met	-177	-111	-192	-124
Priority social expenditures of the national government (floor) [3]	24	24	40	40	42	Met	52	53	Met	14	12	25	25
Stock of all guarantees issued by the national government (ceiling) [3]	45	45	50	50	0	Met	50	0.0	Met	50	...	50	...
Memorandum items:													
Maximum upward adjustment of the primary deficit ceiling owing to excess in concessional loans relative to program projections [3]	...	...	59.5	...	...	...	79.3	...	...	16.8	16.8	42.0	42.0
Programmed concessional loans [3]	...	...	85.6	...	...	...	119.0	...	...	23.7	23.7	69.5	69.5
Budgeted concessional loans [3]	...	...	145.1	...	...	...	198.3	...	...	24.8	24.8	111.4	111.4
Programmed external commercial debt (millions of US$) [3]	...	...	750	750	750	...	750	750	...	750	750	1,250	1,500
Program grants [3]	...	...	3.8	3.8	3.5	...	6.1	3.8	...	0.5	1.3	2.5	2.9

[1] Performance criteria for end-March 2015 and end-September 2015, and indicative target for end-June 2015 and end-December 2015.

[2] The primary budget balance of the national government is defined as overall balance including grants, plus interest payments, excluding SGR-related expenditure. Targets will be adjusted upwards by the excess in concessional loans relative to the programmed amounts, up to the budgeted amounts, and downwards by the shortfall in concessional loans relative to the programmed amounts.

[3] Targets for end-March 2015 and end-June 2015 are cumulative flows from July 1, 2014 (beginning of the 2014/15 fiscal year). Targets for end-September 2015 and end-December 2015 are cumulative flows from July 1, 2015.

[4] For program monitoring, the daily average for the month when testing dates are due.

[5] The NIR floor will be adjusted upward by half of the excess , and downward fully by the shortfall in external budgetary support (program grants) and external commercial debt relative to the programmed amounts. The NDA ceiling will be adjusted downward by half of the excess and upward fully for the shortfall of external budgetary support (program grants) and external commercial debt relative to the programmed amounts.

[6] Excludes encumbered reserves.

[7] Using exchange rates as at end-October 2014 (see TMU ¶9).

[8] Cumulative flow of contracted debt, from July 1, 2014.

[9] The targets on the ceiling of non-concessional external debt combine nonconcessional project loans, syndicated loan and sovereign bond.

[10] Continuous. Cumulative flow in gross terms from July 1, 2014 for the period through end-June 2015, and from July 1, 2015 thereafter.

[11] Compliance will be evaluated based on the 12-month inflation average of the latest three months.

Table 2. Kenya: Performance Against End-March and end-June 2015 Structural Benchmarks

Measure	Target Date	Status
Complete an action plan aimed at strengthening the staffing of the Public Debt Management Office at the National Treasury (IMF Country Report No. 15/31, MEFP ¶13).	End-March 2015	**Not met.** Proposed to be reset for end-September 2015 (see Table 3).
Report in the Budget Policy Statement: (i) all existing PPPs, with their key features, including all commitments and obligations in PPP projects; and (ii) all government guarantees including those to counties (IMF Country Report No. 15/31, MEFP ¶13).	End-March 2015	**Met.** List and key features of existing PPPs included in the Budget Policy Statement approved by Parliament in February 2015.
Complete report on personnel audits for the national and county governments including a time-bound action plan aimed at rationalizing personnel to avoid overlapping of positions (IMF Country Report No. 15/31, MEFP ¶11).	End-March 2015	**Not met**. The staff rationalization plan was approved in August 2015 (see ¶9).
Adopt a framework for county borrowing with guidelines consistent with PFM Law, and incorporate future county borrowing in the government's medium-term debt strategy (IMF Country Report No. 15/31, MEFP ¶12).	End-March 2015	**Met.** The cabinet adopted the framework for county borrowing guidelines and sent it to the parliament for approval.
Submit to Parliament a new Central Bank of Kenya Bill that sets price stability as primary CBK objective (IMF Country Report No. 15/31, MEFP ¶17).	End-March 2015	**Not met**. The draft Bill has been reviewed by the Attorney General and is with the Commission on Implementation of the Constitution. It will thereafter be shared with Cabinet for Approval before submitting the draft Bill to Parliament. Proposed to be reset for end September.
Fully integrate payroll payments to core civil service through the GHRIS in IFMIS (IMF Country Report No. 15/31, MEFP ¶11).	End-June 2015	**Not met**. Proposed to be reset for end-September 2015 (see Table 3).
Complete the full Phase I core TSA to fully integrate the TSA with IFMIS (IMF Country Report No. 15/31, MEFP ¶13).	End-June 2015	**Not met**. Proposed to be reset for end-September 2015 (see Table 3). Significant progress made (see ¶12).

Table 3. Kenya: Existing and Proposed Structural Benchmarks, September 2015

Measure	Target Date	Macro Criticality
Take measures to strengthen the staffing of the Public Debt Management Office at the National Treasury (¶12). Proposed.	End-September 2015	Improve public debt management and reduce fiscal risks. Reset from end-March 2015.
Submit to Parliament a new Central Bank of Kenya Bill that sets price stability as primary CBK objective. Proposed.	End-September 2015	Strengthen CBK's independence and clarify policy objectives. Original target was end-March 2015 (see Table 2).
Complete the audit of assets and liabilities of all counties including those inherited at the onset of devolution (IMF Country Report No. 15/31, MEFP ¶12).	End-December 2015	Limit fiscal risks. Proposed to be reset from end-September 2015.
Produce GFS-compliant consolidated fiscal accounts for the national government and parastatals (IMF Country Report No. 15/31, MEFP ¶13).	End-September 2015	Limit fiscal risks.
Publish Foreign Investment Survey covering years 2012-13 (IMF Country Report No. 15/31, MEFP ¶22).	End-September 2015	Improve BOP data quality, assessment of private debt vulnerabilities, and information for macro policy making.
Complete the migration of all National Government MDAs to IFMIS/ Internet Banking (with the exception of security agencies); capture exchequer, debt payments and other Consolidated Fund Services transactions in IFMIS; reach a Service Level Agreement between the National Treasury and the CBK on agency operations; and start automating of Exchequer release process (¶13). Proposed.	End-September 2015	Improve liquidity management and facilitate monetary policy implementation.

Attachment II. Technical Memorandum of Understanding

1. This memorandum sets out the understandings between the Kenyan authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets, their adjusters and data reporting requirements for the 12-month Stand-By Arrangement and Standby Credit Facility.

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

II. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

3. Quantitative performance criteria were established for March 31, 2015, and September 30, 2015 with respect to:

- the primary balance of the national government including grants, and excluding spending related to the Standard Gauge Railway project, cash basis (**floor**);
- the net official international reserves (NIR) of the Central Bank of Kenya (CBK) (**floor**);
- nonconcessional medium- and long-term external debt contracted or guaranteed by the national government (**ceiling**)- proposed to be eliminated after the first review; and
- national government medium- and long-term external public debt arrears (**continuous ceiling**);
- monetary policy consultation clause (**band**).

4. The program sets indicative targets for June 30, 2015 with respect to:

- the net domestic assets (NDA) of the CBK (**ceiling**);
- priority social spending of the national government (**floor**); and
- stock of guarantees issued by the national government (**ceiling**).

III. PERFORMANCE CRITERION ON THE PRIMARY BALANCE OF THE NATIONAL GOVERNMENT

5. **The national government primary balance** on cash basis is defined as national government revenues and grants minus expenditures and net lending, plus due interest payments, and spending related to the Standard Gauge Railway project, adjusted for cash basis.

6. For program purposes, the **national government primary balance** on 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, excluding securitization of VAT refund arrears; (b) the negative of net external financing of the national government, excluding the executed amount of disbursements related to the Standard Gauge Railway project; and (c) domestic and external interest payments of the national government. For the March 31, 2015 and June 30, 2015 test dates, the national government primary balance will be measured cumulatively from July 1, 2014, and for the September 30, 2015 test date cumulatively from July 1, 2015.

The above items are defined as follows:

- **Net domestic financing** of the national government is defined as the sum of:
  - net domestic bank financing;
  - net domestic nonbank financing;
  - change in the stock of domestic arrears as reported by the National Treasury; and
  - proceeds from privatization.

- **Net external financing** is defined as the sum of:
  - disbursements of **external nonconcessional project loans**, including securitization and excluding executed amounts of disbursements related to the Standard Gauge Railway project;
  - disbursements of **budget support loans;**
  - the negative of principal repayments on all **external loans;**
  - net proceeds from issuance of external debt;
  - any exceptional financing (including rescheduled principal and interest);
  - 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. **Adjustors.** The national government primary balance will be: (i) adjusted downward by the amount of the shortfall in program grants, which are expected as refunds for Kenya's participation in African Union Mission in Somalia (AMISOM), as specified in TMU Table 1 below; and (ii) adjusted upwards by the excess in concessional loans relative to the programmed amounts, up to the budgeted amounts in line with Kenyan law.

TMU Table 1. Kenya: African Mission in Somalia (AMISOM) Grant Schedule

(Billions of Kenyan Shillings)

	2015			
	Mar.	Jun.	Sep.	Dec.
Program Amount [1]	3.8	6.1	0.5	2.5

Source: Authorities' data.

[1] For FY2014/15 cumulative from July 1, 2014, and for FY2015/16 cumulative from July 1, 2015.

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

8. **The net official international reserves** (NIR) (stock) 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).
- **Gross official international reserves** exclude:
  - the reserve tranche position in the IMF;
  - 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 except those arising from the August 28, 2009 SDR general allocation and the September 9, 2009 SDR special allocation;
  - convertible currency liabilities of the CBK to nonresidents with an original maturity of up to and including one year;
  - commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options).

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

- If budgetary external program grants and external commercial debt exceed the programmed amounts set out in TMU Table 2 below, the target for NIR will be adjusted upward by half of the difference.
- If budgetary external program grants and external commercial debt fall short of the programmed amounts set out in TMU Table 2 below, the target for NIR will be adjusted downward by the difference.

TMU Table 2. Projected Budgetary External Grants and Loans

(US$ millions)

	2015			
	Mar.	Jun.	Sep.	Dec.
Program grants [1]	40	52	14	25
External commercial debt [2]	750	750	750	1,500

Source: Kenyan authorities.

[1] For FY2014/15 cumulative from July 1, 2014, and for FY2015/16 cumulative from July 1, 2015.

[2] Cumulative from July 1, 2014.

9. **NIR are 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 3 below, and net international reserves will be computed as the daily average for the month when the testing date is due.

TMU Table 3. Kenya: Program Exchange Rates

(Rates as of October 31, 2014)

Currency	Kenyan Shillings per currency unit	US Dollars per currency unit
US Dollar	89.35	1.0000
STG Pound	142.74	1.5975
Japanese Yen	0.81	0.0091
Canadian Dollars	79.76	0.8926
Euro	112.34	1.2573
Swiss Franc	93.29	1.0444
Swedish Kronor	12.14	0.1359
Danish Kronor	15.09	0.1689
Chinese Yuan	14.62	6.1111
Australian Dollars	78.57	1.1373
SDR	132.09	1.4783

Source: Central Bank of Kenya.

V. CONTINUOUS PERFORMANCE CRITERION ON THE NATIONAL GOVERNMENT EXTERNAL PAYMENT ARREARS

10. National government external payment arrears to official and private 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. National government 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 the national government 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 rescheduling.

11. The performance criterion on the national government external payment arrears is defined as a cumulative flow in gross terms from July 1, 2015 and applies on a continuous basis.

VI. MONETARY POLICY CONSULTATION CLAUSE

12. The quarterly consultation 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 4 below. If the observed average for the latest three months of the 12-months rate of CPI inflation falls outside the lower or upper bands specified in the TMU Table 4 below for end-March 2015 and end-September 2015 test dates, the authorities will complete a consultation with the Executive 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) on proposed remedial actions if deemed necessary. When the consultation is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed.

TMU Table 4. Inflation Consultation Band

	2014				2015			
	Mar. Actual	Jun. Actual	Sep. Actual	Dec. Actual	Mar. Actual	Jun. Actual	Sep. Target	Dec. Indicat.
Upper band							7.5	7.5
Actual/*Center point*	6.3	7.4	6.6	6.0	6.3	7.0	*5.0*	*5.0*
Lower band							2.5	2.5

VII. INDICATIVE TARGET ON THE NET DOMESTIC ASSETS OF THE CENTRAL BANK OF KENYA

13. **Net domestic assets (NDA)** are defined as reserve money minus NIR converted in shillings at the accounting exchange rate specified in TMU Table 3, plus medium- and long-term liabilities (i.e., liabilities with a maturity of one year or more) of the CBK, including those arising from the August 28, 2009 SDR General allocation and the September 9, 2009 SDR Special allocation; minus the value in shillings of encumbered reserves converted at the accounting exchange rate specified in TMU Table 3.

- NDA is composed of:
  - net CBK credit to the national government;
  - outstanding net credit to domestic banks by the CBK (including overdrafts); and
  - other items net.
- Reserve money is defined as the sum of:
  - currency in circulation; and
  - required and excess reserves.
- The following **adjustors** will apply to the target for NDA:
  - If budgetary support (external grants and loans) and external commercial debt exceed the programmed amounts, the target for NDA will be adjusted downward by half of the difference.
  - If budgetary support (external grants and loans) and external commercial debt fall short of the programmed amounts, the target for NDA will be adjusted upward by the difference.

14. NDA are monitored in shillings, and will be computed as the daily average for the month when the testing date is due.

VIII. INDICATIVE TARGET ON PRIORITY SOCIAL SPENDING

15. 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;
- free primary education expenditure; and
- free secondary education expenditure**.**

IX. INDICATIVE TARGET ON GUARANTEES ISSUED BY THE NATIONAL GOVERNMENT

16. The guarantees issued by the national government include all guarantees extended by the national government to counties, public enterprises and all parastatal entities. Indicative targets for end-March 2015 and end-June 2015 are cumulative flows from July 1, 2014, and the indicative target for end-September 2015 and end-December 2015 are cumulative from July 1, 2015.

X. STRUCTURAL BENCHMARK ON PREPARATION OF GFS-COMPLIANT CONSOLIDATED FISCAL ACCOUNTS

17. The institutions to be covered under the end-September 2015 structural benchmark on the production of GFS-Compliant consolidated fiscal accounts includes (i) the budgetary central government; and (ii) all extrabudgetary units and entities.

XI. DATA REPORTING

18. 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 5 below.

TMU Table 5. 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)	Monthly	Within 15 days after the end of the month.	CBK
Net nonbank financing of the national government	Monthly	Within 15 days after the end of the month.	CBK
National government arrears accumulation to domestic private parties and public enterprises outstanding for 90 days or longer.	Monthly	Within 15 days after the end of the month.	National Treasury (NT)
Proceeds from privatization	Monthly	Within 15 days after the end of the month.	NT
Interest paid on domestic debt	Monthly	Within 15 days after the end of the month.	CBK
Interest paid on external debt	Quarterly	Within 4 weeks after the end of the quarter.	CBK
Disbursements of external nonconcessional project loans, including securitization	Quarterly	Within 45 days after the end of the quarter.	NT
Disbursements of budget support loans	Quarterly	Within 45 days after the end of the quarter.	NT
Principal repayments on all external loans	Quarterly	Within 15 days after the end of the month.	CBK
Net proceeds from issuance of external debt	Monthly	Within 15 days after the end of the month.	CBK
Any exceptional financing (including rescheduled principal and interest)	Monthly	Within 15 days after the end of the month.	NT
Net changes in the stock of short-term external debt	Quarterly	Within 45 days after the end of the quarter.	NT
Net change in external arrears, including interest	Monthly	Within 45 days after the end of the quarter.	NT
2. Gross official international reserves			
CBK's holding of monetary gold (excluding amounts pledged as collateral)	Monthly	Within 15 days after the end of the month.	CBK
Holdings of SDRs	Monthly	Within 15 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 15 days after the end of the month.	CBK

TMU Table 5. Summary of Data to Be Reported (continued)

3. Official reserve liabilities			
Total outstanding liabilities of the CBK to the IMF except those arising from the August 28,2009 SDR general allocation and the September 9, 2009 SDR special allocation;	Monthly	Within 15 days after the end of the month.	CBK
Convertible currency liabilities of the CBK to nonresidents with an original maturity of up to and including one year	Monthly	Within 15 days after the end of the month.	CBK
Commitments to sell foreign exchange arising from derivatives.	Monthly	Within 15 days after the end of the month.	CBK
4. Net domestic assets			
Net CBK credit to the national government	Monthly	Within 15 days after the end of the month.	CBK
Outstanding net CBK credit to domestic banks (including overdrafts)	Monthly	Within 15 days after the end of the month.	CBK
5. Other indicators			
Currency in circulation	Monthly	Within 15 days after the end of the month.	CBK
Required and excess reserves	Monthly	Within 15 days after the end of the month.	CBK
Nonconcessional medium- and long-term external debt contracted or guaranteed by the national government	Quarterly	Within 45 days after the end of the quarter.	NT
Accumulation of national government external payment arrears.	Monthly	Within 45 days after the end of the quarter.	NT
Social priority spending of the national government	Quarterly	Within 45 days after the end of the quarter.	NT
Guarantees issued by the national government to counties, public enterprises and all parastatal entities.	Monthly	Within 45 days after the end of the quarter.	NT
Inflows/outflows related to the SGR project	Quarterly	Within 45 days after the end of the quarter.	NT
12-month CPI inflation	Monthly	Within 15 days after the end of the month.	KNBS

INTERNATIONAL MONETARY FUND

KENYA

FIRST REVIEW UNDER THE TWELVE-MONTH STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUEST FOR WAIVERS FOR NON-OBSERVANCE OF PERFORMANCE CRITERION, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE

September 1, 2015

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

This Debt Sustainability Analysis (DSA) update reflects revisions since the previous DSA update completed in January 2015 for the requests for the precautionary SBA-SCF arrangements, to reflect updated information on the fiscal deficit and debt path, the release of revised national accounts data, and prospective borrowings under a precautionary Fund arrangement. Kenya's risk of external debt distress remains low, while overall public sector debt dynamics continue to be sustainable.[1] However, the recent pace of public debt accumulation has been rapid; while this is financing infrastructure that should address bottlenecks and boost sustainable growth, containment of the fiscal deficit now and further medium-term consolidation efforts are also needed to limit and eventually reverse the rise in public debt. The authorities are taking steps to address capacity and coordination problems that led to the emergence in 2014–15 of temporary external payment arrears, since cleared. Steps are also in train to address data gaps in the financial accounts of the balance of payments and the international investment position, which is necessary to contain risks of an unmonitored buildup in nongovernment external debt.

[1] The World Bank in 2013 upgraded its classification of Kenya to "strong" in terms of the quality of its policies and institutions as measured by a three-year average of the World Bank's Country Policy and Institutional Assessment (CPIA) Index (average score in 2012–14: 3.84). This classification is unaffected by the slight decline in Kenya's CPIA score from 3.9 in 2013 to 3.8 in 2014, which reflected a larger fiscal deficit. The relevant indicative thresholds for this category are: 50 percent for the NPV of debt-to-GDP ratio, 200 percent for the NPV of debt-to-exports ratio, 300 percent for the NPV of debt-to-revenue ratio, 25 percent for the debt service-to-exports ratio, and 22 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt.

UNDERLYING ASSUMPTIONS

1. **This DSA is based on macroeconomic assumptions that are consistent with the framework outlined in the accompanying staff report.** Main changes compared with the January 2015 DSA update include (text table):

Kenya: Selected Macroeconomic Assumptions

	2013	2014	2015	2016	Long term 1/
Real GDP Growth					
Current DSA	5.7	5.3	6.5	6.8	6.8
Previous DSA (January 2015)	5.7	5.3	6.9	7.2	6.8
Primary Fiscal Deficit (percent of GDP)					
Current DSA	3.0	4.8	5.4	4.3	0.7
Previous DSA (January 2015)	3.0	4.5	5.1	3.8	0.7
Non-interest Current Account Deficit (percent of GDP)					
Current DSA	8.6	10.2	9.2	8.8	5.7
Previous DSA (January 2015)	8.4	8.3	6.8	6.5	5.6

Source: IMF staff estimates.
1/ For current DSA update, average 2021-34. For previous DSA update, average 2020-34.

- **Further frontloading of public infrastructure spending.** Projected spending on the Nairobi-Mombasa Standard Gauge Railway (SGR), is even more frontloaded than in the previous DSA, as the authorities target completion by June 2017. This results in a higher primary fiscal deficit in the near term, with the deficit being brought down in the medium to longer term consistent with the East African Community (EAC) Monetary Union convergence criteria.

- **Revised current account path.** The current account deficit is significantly wider in 2014–16, reflecting a wider than projected current account deficit outturn in 2014, and additional frontloading of infrastructure-related imports in 2015 and 2016. The current account deficit is projected to narrow from 2017 with infrastructure-related imports tapering off.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

2. **All indicators of public and publicly guaranteed external debt remain well below the policy-dependent debt burden thresholds under the baseline scenario, and no thresholds are breached under any of the standard stress tests.** The main results of the external DSA are the following:

- **Under the baseline scenario, the debt burden remains sustainable over the 20-year projection period** (Figure 1). As a result of the debut sovereign issuances and first disbursements of the railway-related loan package, the NPV of public and publicly guaranteed (PPG) external debt is estimated at 20 percent of GDP at end-2014. With additional project financing and moderate additional commercial financing, the NPV of PPG external debt is projected to peak at 22 percent of GDP in 2016–17 (well below the 50 percent indicative threshold). Nonresident holdings of domestic debt are reportedly low

(Annex I). The NPV of the debt-to-exports ratio would plateau at around 123 percent in the medium term, remaining well under an indicative threshold of 200 percent.

- **Standard stress tests do not reveal significant vulnerabilities as even the shocks with the highest impact would maintain debt levels below the relevant indicative thresholds** (Table 2 and Figure 1). The shock that would have the largest near-term impact on external debt dynamics is a one-time 30 percent nominal depreciation of the exchange rate, increasing the PV of debt to GDP ratio from 22 percent in 2015 to 31 percent in 2016–17.

- **Temporary delays in external debt service payments emerged in 2014–15, reflecting a coordination failure rather than inability to pay.** The external arrears reported between July 2014 and March 2015 cumulated to around US$64 million, but were individually small—signaling capacity constraints at the National Treasury's Debt Management Office (DMO) and interagency coordination problems rather than an underlying inability to service external debt. All reported arrears have been cleared. The authorities are taking corrective measures to address the identified capacity and coordination problems.

3. As noted in previous DSAs, recent resource discoveries represent significant upside potential to Kenya's external position. Kenya is currently a net oil importer, but significant oil resources were discovered in 2014. Oil and gas exploration activities are continuing, despite the large fall in oil prices over the past year. If recent discoveries are confirmed as commercially viable, Kenya's medium- to long-term external position could improve by significantly more than currently projected.

4. The picture remains unclear for private sector debt. Available data from the Foreign Investment Survey (FIS) suggested nongovernment external debt of some 10 percent of GDP as at end-2011. Stock data for later years are not yet available, but the authorities are currently conducting a FIS covering 2012 and 2013, and plan to release the results in September 2015. As noted in the previous DSA update, addressing data gaps is essential to limit the risk of an unmonitored buildup of external vulnerabilities outside the government sector.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

5. Public debt has been increasing rapidly owing to infrastructure-related borrowing, but under program policies is projected to taper off in 2015–16. Overall gross public debt[1] reached 53 percent of GDP at end-2014, owing to the $2.75 billion in sovereign bond issuances[2] in June and December, and initial disbursements of the SGR-related loan from China's Eximbank. Taking into account

[1] Including gross debt of the national government and the central bank.

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

the frontloading of subsequent disbursements, overall public debt is projected to increase to 56 percent of GDP in 2015–16 (Table 3). In subsequent years, program policies envisage bringing the primary deficit back below 3 percent of GDP in 2017 and gradually further down thereafter, consistent with the EAC convergence criteria. Reflecting this medium-term fiscal consolidation and robust real GDP growth boosted by infrastructure spending and easing of bottlenecks, public debt would ease back below 50 percent of GDP after 2020. In PV terms, the public debt-to-GDP ratio would peak just below 50 percent in 2015–16 (Table 4), and fall thereafter. The PV of public debt-to-revenue ratio would gradually decline from around 240 percent in 2015 to around 200 percent in 2018–19.

6. The projected baseline path of public debt is sustainable in the Low-Income Country (LIC) DSA framework, but coverage issues also need to be taken into account.

- As noted in the previous DSA update, the LIC DSA framework currently remains relevant for Kenya, since a majority of its external public debt remains concessional or semi-concessional. However, the 2014 sovereign bond issuances and the commercial component of the SGR have resulted in a significant rise in the share of commercial external debt.

- The projected debt path remains below the EAC public debt convergence criterion (ceiling of 50 percent in PV terms), albeit with tighter margins than previously projected. Significant shocks could take the debt path above the 50 percent ceiling.

- The projected debt path is also below the LIC DSA public debt benchmark for those countries whose CPIA score for quality of policies and institutions is assessed as strong (74 percent of GDP, also in PV terms) above which the risk of public debt distress is heightened. However, this public debt benchmark applies conceptually to the widest possible coverage of the public sector, and ideally should include the obligations of regional and local governments, and government-controlled enterprises (especially in cases where the government owns more than half of the voting shares).

- The measured public debt path excludes legacy debts of the pre-devolution county governments, whose size is not yet fully clear. In addition, public debt should include planned annuities intended to finance road construction: although the annuity obligations may not necessarily be classified as debt under local law, they nevertheless represent public debt obligations for GFS purposes.

- Excluding publicly guaranteed external debt, contingent liabilities are not conceptually part of the public debt but do represent a source of fiscal risk. The extent of contingent liabilities stemming from Public Private Partnerships (PPPs), mostly in the energy sector, is not yet fully assessed.

7. Excluding a fixed-primary-balance scenario that is distorted by temporary factors, the alternative scenarios and bound tests indicate that the projected paths for public debt indicators remain within the relevant thresholds (Table 4 and Figure 2). Under a standard scenario that keeps the primary balance unchanged from its 2015 level, the PV of public debt to GDP would remain on a steady upwards trajectory, remaining permanently above the EAC convergence criterion reference value and exceeding the 74 percent benchmark in the late 2020s. Since the 2015 primary deficit is boosted by temporary SGR-related spending, Figure 2 also includes a scenario fixing the primary balance excluding SGR-spending: public debt would remain on an increasing trend in this scenario, albeit more gradually, and remaining in PV terms under the 74 percent benchmark (subject to the coverage issues noted above).

MAIN FINDINGS AND CONCLUSIONS

8. **This DSA update finds that Kenya remains at low risk of external debt distress.** The recent emergence of temporary external payment arrears do not reflect an underlying inability to service debt and so do not change this conclusion, but do signal a need for prompt action to strengthen capacity at the Debt Management Office as well as interagency coordination. Standard stress tests suggest scenarios in which external debt would increase, but remain within sustainable bounds. Under such stress tests, a large exchange rate shock represents the largest upside risk to external debt. At the same time, Kenya has strong market foundations and long-standing sound macroeconomic policies—absence of price controls, flexible exchange rate and interest rates, limited budget subsidies—which give it scope to respond to shocks.

9. **Overall public debt remains sustainable, though fiscal policy efforts are needed to ensure that the recent increases taper off.** The baseline public debt path remains consistent with the EAC convergence criteria and below the relevant public debt benchmark, subject to coverage issues including outside the national government. Recent increases in public debt reflect increased borrowings to address infrastructure needs, and temporarily high primary deficits. Standard stress-testing scenarios show that if the primary deficit were to remain at current levels, public debt would remain on an upward path. These scenarios are more pessimistic than the authorities' stated policy intentions—which are to reduce the primary balance in the medium term consistent with the convergence criteria for the EAC monetary union—but also highlight the need to follow through on the intended medium-term fiscal consolidation.

10. **As noted in the previous DSA update, risks to debt dynamics are to the upside in the near to medium term.** In the near term, the fiscal deficit and borrowing needs could widen further if execution rates on foreign-financed projects (for which debt has been contracted but not disbursed) rise faster than expected; if management of the devolution process falters and the new county borrowing framework lacks sufficient safeguards; and/or if risks materialize from contingent liabilities. In addition, the picture is particularly uncertain with regard to nongovernment external debt in view of long-standing data gaps that the authorities have begun to address; in the meantime, however, risks remain of an unmonitored buildup in external vulnerabilities.

11. **In the medium to long term, however, natural resource discoveries represent positive potential.** If confirmed as viable, resource discoveries could translate into exports that significantly improve Kenya's external prospects, as well as an additional source of revenue. Prospects for viability could be tempered by the further declines in energy and commodity prices since mid-2015, especially if these are sustained.

12. **The authorities agree with the conclusions of the DSA update.** They concur that Kenya is at low risk of external debt distress. On this basis, they are requesting that the SBA-SCF arrangements discontinue the ceiling on nonconcessional external debt, in line with the Fund's new debt limits policy.

Table 1. Kenya: External Debt Sustainability Framework, Baseline Scenario, 2012-2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2015-2020			2021-2034
	2012	2013	2014			2015	2016	2017	2018	2019	2020	Average	2024	2034	Average
External debt (nominal) 1/	**31.6**	**32.5**	**42.0**			**48.8**	**49.4**	**49.5**	**49.5**	**49.1**	**49.2**		**47.1**	**45.3**	
of which: public and publicly guaranteed (PPG)	19.3	19.5	26.4			29.8	29.9	29.8	29.5	28.9	28.7		25.7	21.4	
Change in external debt	4.5	0.9	9.5			6.8	0.6	0.2	-0.1	-0.4	0.1		-1.1	0.0	
Identified net debt-creating flows	3.3	5.3	7.1			4.5	3.5	0.9	0.7	0.6	0.7		1.3	1.7	
Non-interest current account deficit	**8.2**	**8.6**	**10.2**	**4.6**	**3.3**	**9.2**	**8.8**	**6.5**	**6.0**	**5.9**	**5.9**		**6.0**	**5.3**	5.7
Deficit in balance of goods and services	13.7	14.0	15.5			15.1	14.9	12.6	12.2	12.0	11.9		11.5	9.8	
Exports	21.9	19.6	18.2			18.4	17.9	17.7	17.5	17.3	17.0		16.5	16.1	
Imports	35.5	33.6	33.7			33.4	32.8	30.3	29.7	29.3	28.9		28.0	25.9	
Net current transfers (negative = inflow)	-5.6	-5.7	-6.2	-6.1	0.5	-6.6	-6.6	-6.4	-6.3	-6.1	-6.0		-5.6	-4.7	-5.3
of which: official	-0.4	-0.4	-0.5			-0.4	-0.3	-0.3	-0.3	-0.3	-0.3		-0.3	-0.2	
Other current account flows (negative = net inflow)	0.1	0.3	0.9			0.7	0.5	0.3	0.1	0.0	0.0		0.1	0.2	
Net FDI (negative = inflow)	**-0.5**	**-0.9**	**-1.8**	**-0.7**	**0.7**	**-2.6**	**-3.1**	**-3.4**	**-3.1**	**-3.1**	**-3.0**		**-2.5**	**-1.4**	-2.1
Endogenous debt dynamics 2/	**-4.3**	**-2.3**	**-1.3**			**-2.0**	**-2.2**	**-2.2**	**-2.2**	**-2.2**	**-2.2**		**-2.2**	**-2.2**	
Contribution from nominal interest rate	0.3	0.3	0.2			0.6	0.9	0.9	0.9	0.9	0.9		0.8	0.6	
Contribution from real GDP growth	-1.0	-1.6	-1.6			-2.6	-3.1	-3.1	-3.1	-3.1	-3.1		-3.0	-2.8	
Contribution from price and exchange rate changes	-3.5	-1.0	...			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.1**	**-4.4**	**2.4**			**2.3**	**-3.0**	**-0.8**	**-0.7**	**-0.9**	**-0.6**		**-2.4**	**-1.7**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.0	
PV of external debt 4/	...	34.9	35.2			41.1	41.5	41.5	41.5	41.4	41.3		39.6	38.3	
In percent of exports	...	178.0	192.9			224.1	232.1	234.5	236.9	239.0	242.7		240.4	238.4	
PV of PPG external debt	**...**	**22.0**	**19.6**			**22.1**	**22.1**	**21.8**	**21.5**	**21.2**	**20.8**		**18.2**	**14.4**	
In percent of exports	**...**	**111.9**	**107.7**			**120.4**	**123.4**	**123.2**	**122.9**	**122.3**	**122.5**		**110.3**	**89.5**	
In percent of government revenues	**...**	**114.0**	**102.2**			**110.9**	**103.6**	**99.1**	**96.3**	**94.8**	**95.2**		**81.3**	**62.1**	
Debt service-to-exports ratio (in percent)	**14.1**	**17.9**	**27.8**			**29.9**	**31.9**	**32.7**	**33.3**	**39.0**	**36.2**		**41.4**	**38.1**	
PPG debt service-to-exports ratio (in percent)	**3.7**	**4.0**	**9.0**			**6.5**	**8.0**	**8.7**	**8.9**	**14.0**	**9.8**		**17.1**	**10.5**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**4.0**	**8.6**			**6.0**	**6.7**	**7.0**	**6.9**	**10.9**	**7.6**		**12.6**	**7.3**	
Total gross financing need (Billions of U.S. dollars)	7.0	8.7	11.2			11.6	12.7	12.2	13.5	15.8	17.0		27.4	72.5	
Non-interest current account deficit that stabilizes debt ratio	3.7	7.7	0.7			2.3	8.3	6.4	6.1	6.3	5.8		7.1	5.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.6	5.7	5.3	5.2	2.2	6.5	6.8	7.0	7.0	7.0	6.9	6.9	6.8	6.8	6.8
GDP deflator in US dollar terms (change in percent)	14.9	3.1	5.3	7.6	7.0	-2.5	1.9	4.2	3.8	3.4	3.2	2.3	3.0	2.9	3.0
Effective interest rate (percent) 5/	1.1	1.0	0.8	1.3	0.5	1.5	1.9	2.0	2.0	2.0	2.0	1.9	1.8	1.4	1.6
Growth of exports of G&S (US dollar terms, in percent)	11.3	-2.3	3.1	10.5	11.2	4.6	6.1	10.3	9.8	9.3	8.5	8.1	9.3	9.9	9.6
Growth of imports of G&S (US dollar terms, in percent)	9.6	2.9	11.4	15.1	11.6	3.0	6.7	3.2	8.8	9.1	8.7	6.6	9.2	9.1	9.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.8	29.9	31.2	26.9	16.6	28.8	27.2	13.6	25.2	25.8
Government revenues (excluding grants, in percent of GDP)	18.7	19.3	19.2			19.9	21.3	22.0	22.3	22.3	21.9		22.4	23.2	22.8
Aid flows (in Billions of US dollars) 7/	0.2	0.3	0.3			2.3	1.8	2.0	1.7	1.5	2.2		1.9	7.4	
of which: Grants	0.2	0.3	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.5	1.2	
of which: Concessional loans	0.0	0.0	0.0			2.0	1.5	1.7	1.4	1.2	1.9		1.4	6.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.9	1.5	1.6	1.3	1.0	1.3		0.7	1.0	1.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			35.8	36.8	37.9	34.3	23.4	34.8		21.5	32.5	33.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	50.4	54.9	60.9			63.3	68.9	76.8	85.3	94.3	104.0		152.7	395.6	
Nominal dollar GDP growth	20.2	9.0	10.9			3.9	8.8	11.5	11.1	10.6	10.3	9.4	10.0	10.0	10.0
PV of PPG external debt (in Billions of US dollars)		12.0	11.6			13.6	15.2	16.7	18.3	19.9	21.6		27.7	56.8	
(PVt-PVt-1)/GDPt-1 (in percent)			-0.8			3.3	2.4	2.2	2.1	1.9	1.8	2.3	0.9	1.2	1.3
Gross workers' remittances (Billions of US dollars)	1.2	1.3	1.4			1.6	1.8	2.0	2.1	2.3	2.5		3.5	7.8	
PV of PPG external debt (in percent of GDP + remittances)	...	21.4	19.2			21.6	21.5	21.3	21.0	20.6	20.3		17.8	14.1	
PV of PPG external debt (in percent of exports + remittances)	...	99.8	95.3			106.0	107.9	107.6	107.5	107.0	107.2		96.9	79.7	
Debt service of PPG external debt (in percent of exports + remittanc	...	3.5	8.0			5.7	7.0	7.6	7.8	12.3	8.5		15.0	9.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

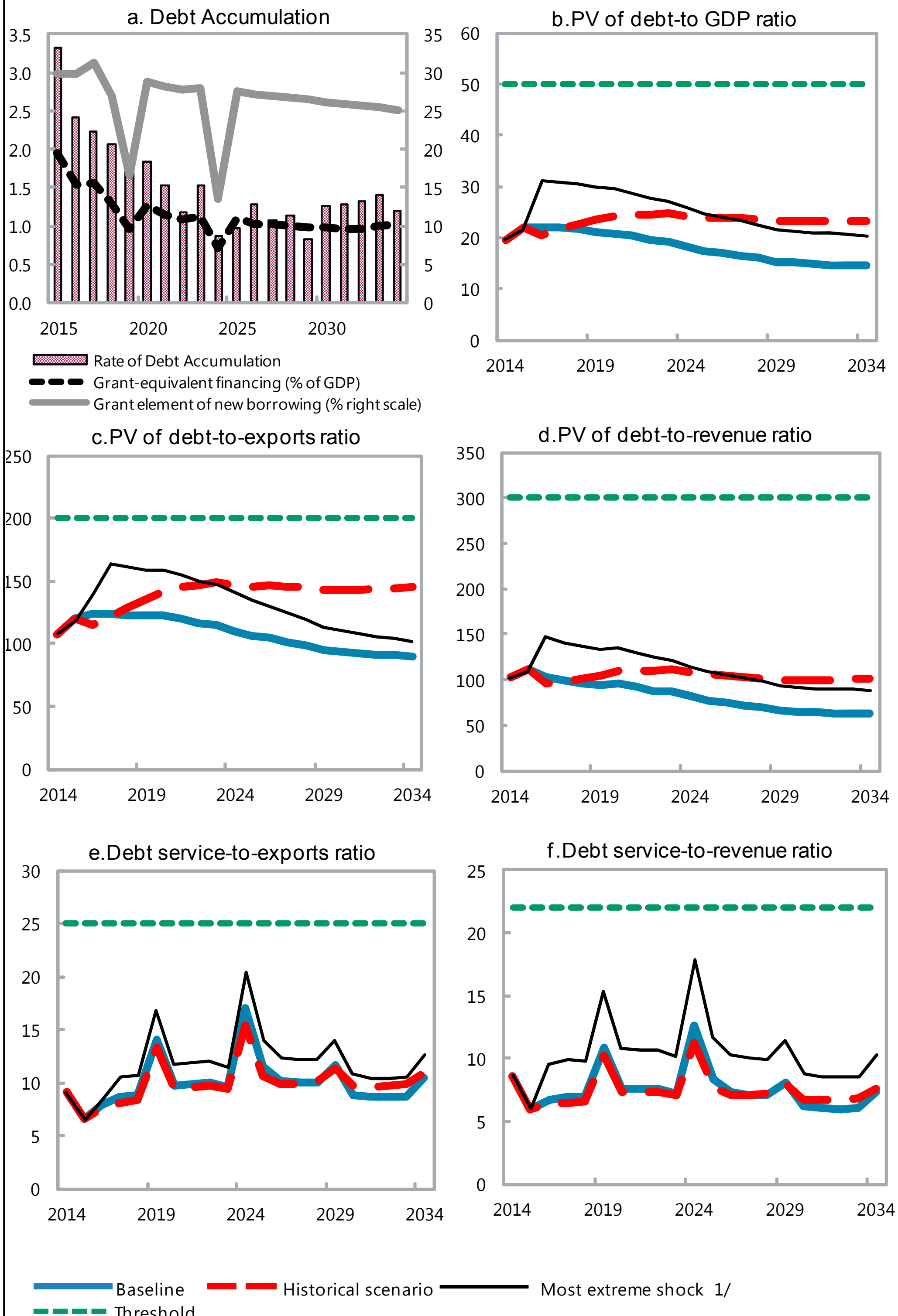
5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Figure 1. Kenya: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014-2034--Baseline 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Combination shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 2. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario 2015–34

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2024**	2034
PV of debt-to GDP ratio								
Baseline	22	22	22	22	21	21	**18**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2034 1/	22	21	22	23	23	24	**24**	23
A2. New public sector loans on less favorable terms in 2015-2034 2	22	23	24	24	25	25	**25**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	22	23	23	23	23	22	**20**	15
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	22	23	23	22	22	21	**19**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	22	22	23	23	22	22	**19**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	22	25	28	27	26	26	**22**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	22	25	28	27	27	26	**23**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	22	31	31	30	30	29	**26**	20
PV of debt-to-exports ratio								
Baseline	120	123	123	123	122	122	**110**	90
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2034 1/	120	115	122	129	135	142	**146**	145
A2. New public sector loans on less favorable terms in 2015-2034 2	117	129	134	138	142	147	**149**	150
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	117	123	123	123	122	122	**110**	89
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	117	137	151	151	150	150	**134**	107
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	117	123	123	123	122	122	**110**	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	117	140	157	155	152	151	**134**	96
B5. Combination of B1-B4 using one-half standard deviation shocks	117	140	163	161	159	158	**140**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	117	123	123	123	122	122	**110**	89
PV of debt-to-revenue ratio								
Baseline	111	104	99	96	95	95	**81**	62
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2034 1/	111	97	98	101	105	110	**108**	100
A2. New public sector loans on less favorable terms in 2015-2034 2	108	108	108	108	110	114	**110**	104
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	108	107	106	103	102	102	**87**	67
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	108	107	103	100	98	98	**84**	62
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	108	105	104	101	99	100	**85**	65
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	108	117	126	121	118	118	**99**	66
B5. Combination of B1-B4 using one-half standard deviation shocks	108	117	128	123	120	119	**101**	68
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	108	146	140	136	134	134	**115**	88

Table 2. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario 2015–34 (concluded)

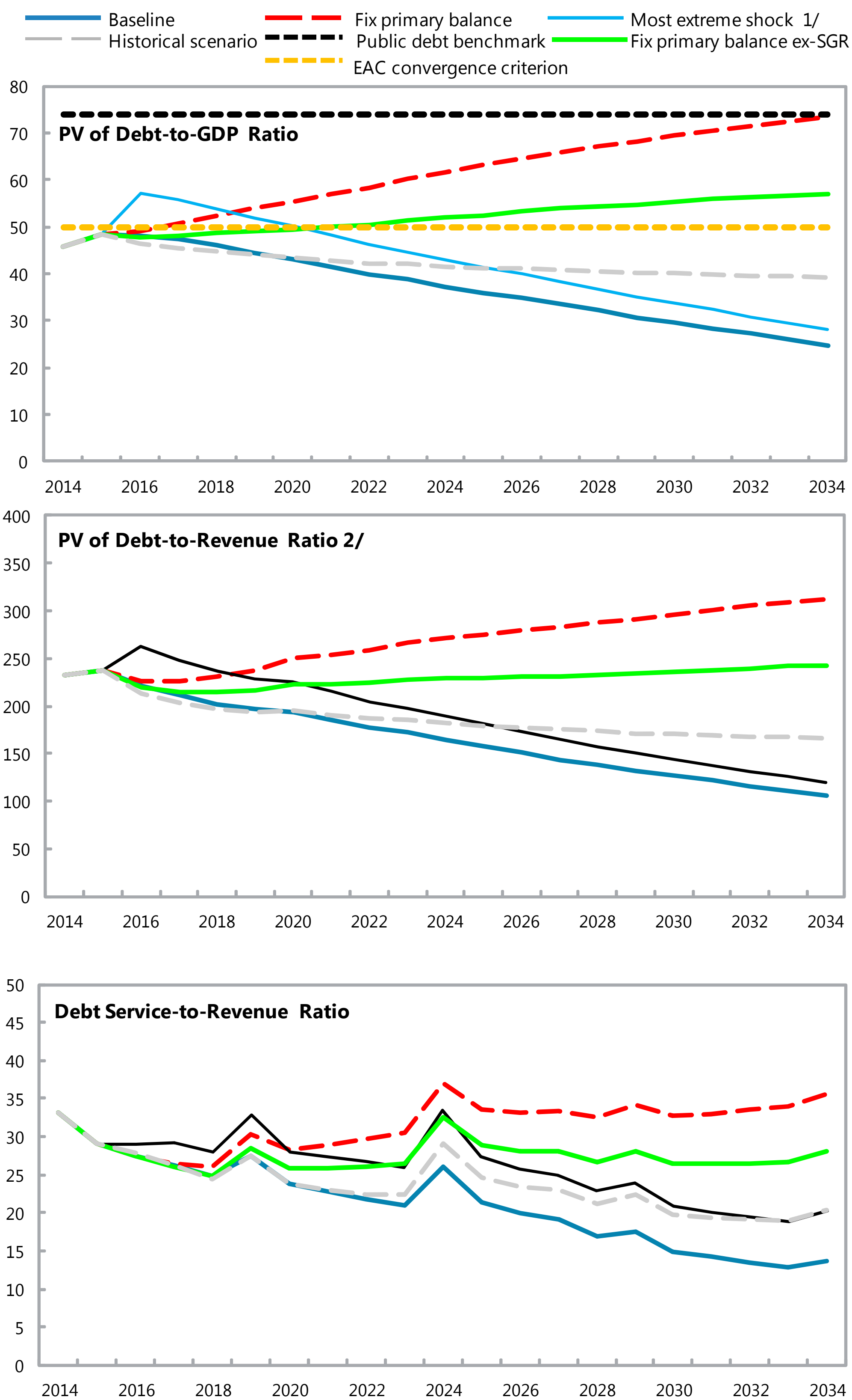
(In percent)

Debt service-to-exports ratio								
Baseline	7	8	9	9	14	10	**17**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2034 1/	7	8	8	8	13	9	**15**	11
A2. New public sector loans on less favorable terms in 2015-2034 2	7	8	8	9	14	9	**18**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	7	8	9	9	14	10	**17**	11
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	7	9	10	11	17	12	**20**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	7	8	9	9	14	10	**17**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	7	8	9	10	15	11	**18**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	10	11	16	11	**19**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	7	8	9	9	14	10	**17**	11
Debt service-to-revenue ratio								
Baseline	6	7	7	7	11	8	**13**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2034 1/	6	6	6	7	10	7	**11**	8
A2. New public sector loans on less favorable terms in 2015-2034 2	6	6	7	7	11	7	**13**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	6	7	8	7	12	8	**14**	8
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	6	7	7	7	11	8	**13**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	6	7	7	7	11	8	**13**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	6	7	7	8	12	8	**13**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	8	8	12	9	**14**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	6	9	10	10	15	11	**18**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	20	20	20	20	20	20	**20**	20

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baselir
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 2. Kenya: Indicators of Public Debt Under Alternative Scenarios, 2014-2034--Baseline 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

Table 3. Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012-2034

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2024	2034	2021-34 Average
Public sector debt 1/	41.7	44.2	52.6			56.2	56.0	55.3	54.0	52.2	51.0		44.8	31.8	
of which: foreign-currency denominated	19.3	19.5	26.4			29.8	29.9	29.8	29.5	28.9	28.7		25.7	21.4	
Change in public sector debt	1.5	2.5	8.4			3.6	-0.2	-0.7	-1.4	-1.8	-1.2		-1.8	-1.3	
Identified debt-creating flows	-0.1	1.6	2.9			3.9	0.9	-0.9	-1.7	-1.7	-1.4		-1.7	-1.5	
Primary deficit	2.3	3.0	4.8	1.6	1.7	5.4	4.3	2.7	1.8	1.6	1.7	2.9	1.0	0.4	0.7
Revenue and grants	19.1	19.8	19.7			20.4	21.7	22.4	22.7	22.6	22.2		22.7	23.5	
of which: grants	0.4	0.5	0.5			0.5	0.4	0.4	0.4	0.3	0.3		0.3	0.3	
Primary (noninterest) expenditure	21.4	22.8	24.5			25.8	26.0	25.1	24.5	24.3	23.9		23.7	23.9	
Automatic debt dynamics	-2.4	-1.4	-1.9			-1.6	-3.5	-3.6	-3.5	-3.3	-3.1		-2.7	-1.9	
Contribution from interest rate/growth differential	-1.3	-0.8	-1.7			-2.3	-2.7	-3.0	-3.1	-3.0	-2.8		-2.3	-1.6	
of which: contribution from average real interest rate	0.4	1.4	0.5			0.9	0.9	0.7	0.5	0.5	0.6		0.7	0.5	
of which: contribution from real GDP growth	-1.8	-2.2	-2.2			-3.2	-3.6	-3.7	-3.6	-3.5	-3.4		-3.0	-2.1	
Contribution from real exchange rate depreciation	-1.0	-0.6	-0.2			0.7	-0.8	-0.6	-0.4	-0.3	-0.3		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.6	0.8	5.5			-0.3	-1.1	0.3	0.3	-0.1	0.2		-0.1	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	46.6	45.8			48.5	48.1	47.3	46.0	44.4	43.1		37.3	24.8	
of which: foreign-currency denominated	...	22.0	19.6			22.1	22.1	21.8	21.5	21.2	20.8		18.2	14.4	
of which: external	...	22.0	19.6			22.1	22.1	21.8	21.5	21.2	20.8		18.2	14.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	13.3	14.8	17.9			18.3	17.3	15.4	14.2	14.4	13.1		12.1	6.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	236.0	232.3			237.8	221.6	211.0	202.4	196.2	194.0		164.4	105.6	
PV of public sector debt-to-revenue ratio (in percent)	...	242.2	238.7			243.3	225.9	214.8	205.8	199.2	196.7		166.6	107.0	
of which: external 3/	...	114.0	102.2			110.9	103.6	99.1	96.3	94.8	95.2		81.3	62.1	
Debt service-to-revenue and grants ratio (in percent) 4/	27.7	28.7	33.1			29.0	27.5	26.2	24.7	27.5	23.8		26.0	13.6	
Debt service-to-revenue ratio (in percent) 4/	28.4	29.4	34.0			29.7	28.1	26.6	25.2	27.9	24.1		26.4	13.8	
Primary deficit that stabilizes the debt-to-GDP ratio	0.7	0.6	-3.6			1.8	4.5	3.3	3.2	3.4	2.9		2.8	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.6	5.7	5.3	5.2	2.2	6.5	6.8	7.0	7.0	7.0	6.9	6.9	6.8	6.8	6.8
Average nominal interest rate on forex debt (in percent)	1.5	1.4	1.0	1.4	0.5	2.3	2.9	3.1	3.1	3.2	3.3	3.0	3.2	2.9	3.1
Average real interest rate on domestic debt (in percent)	2.3	6.6	2.6	1.8	3.7	2.2	1.9	1.4	1.2	1.3	1.4	1.6	1.5	2.1	1.7
Real exchange rate depreciation (in percent, + indicates depreciatior	-5.9	-3.0	-1.1	-4.3	7.7	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.4	5.0	7.5	8.6	3.8	6.7	6.3	6.3	5.9	5.5	5.3	6.0	5.1	5.0	5.1
Growth of real primary spending (deflated by GDP deflator, in percer	5.9	12.6	13.3	3.4	5.3	12.2	7.6	3.1	4.7	5.8	5.1	6.4	7.6	6.7	6.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	29.8	29.9	31.2	26.9	16.6	28.8	27.2	13.6	25.2	...

Sources: Country authorities; and staff estimates and projections.

1/ Refers to gross debt of the central government.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Kenya: Sensitivity Analysis for Key Indicators of Public Debt 2015–34

	Projections							
	2015	2016	2017	2018	2019	2020	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	49	48	47	46	44	43	37	25
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	49	46	45	45	44	43	42	39
A2. Primary balance is unchanged from 2015	49	49	51	52	54	55	62	73
A3. Permanently lower GDP growth 1/	49	48	48	47	46	45	42	41
A4. Fix primary balance ex-SGR	49	48	48	49	49	49	52	57
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	49	51	53	53	53	53	51	45
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	49	47	47	46	44	43	37	25
B3. Combination of B1-B2 using one half standard deviation shocks	49	48	48	48	47	47	44	38
B4. One-time 30 percent real depreciation in 2016	49	57	55	53	51	49	42	29
B5. 10 percent of GDP increase in other debt-creating flows in 2016	49	57	56	54	52	50	43	28
PV of Debt-to-Revenue Ratio 2/								
Baseline	238	222	211	202	196	194	164	106
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	238	214	203	197	194	195	183	165
A2. Primary balance is unchanged from 2015	238	226	226	231	238	250	272	312
A3. Permanently lower GDP growth 1/	238	223	214	207	203	204	187	173
A4. Fix primary balance ex-SGR	238	220	215	214	216	223	229	243
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	238	233	237	234	233	237	224	193
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	238	218	210	202	195	193	164	105
B3. Combination of B1-B2 using one half standard deviation shocks	238	219	214	210	208	211	196	162
B4. One-time 30 percent real depreciation in 2016	238	262	246	234	225	221	186	124
B5. 10 percent of GDP increase in other debt-creating flows in 2016	238	263	248	237	229	226	189	119
Debt Service-to-Revenue Ratio 2/								
Baseline	29	28	26	25	28	24	26	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	28	26	24	27	24	29	20
A2. Primary balance is unchanged from 2015	29	28	26	26	30	28	37	36
A3. Permanently lower GDP growth 1/	29	28	26	25	28	25	28	21
A4. Fix primary balance ex-SGR	29	28	26	25	29	26	33	28
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	29	29	28	27	31	28	33	23
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	29	28	26	24	27	24	26	14
B3. Combination of B1-B2 using one half standard deviation shocks	29	28	27	25	28	25	30	20
B4. One-time 30 percent real depreciation in 2016	29	29	29	28	33	28	33	20
B5. 10 percent of GDP increase in other debt-creating flows in 2016	29	28	29	29	32	28	28	15

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Statement by
Ms. Kapwepwe, Executive Director for Kenya
and
Ms. Ngugi, Senior Advisor to the Executive Director for Kenya
September 16, 2015

On behalf of the Kenyan authorities, we thank staff for their constructive engagement during the first review of the economic program under the 12-month Stand-By Arrangement and an Arrangement under Standby Credit Facility. With the significant progress made in implementation of the program, the authorities look forward to the completion of this review, and the Executive Board support for the request for a modification of performance criteria for end-September 2015, and for waivers for non-observance of the performance criteria on external payments arrears.

1) Recent Economic Developments

Kenya's economic growth remains resilient. The first quarter of 2015 recorded a 4.9 percent growth compared to 4.7 percent in 2014, supported by the expansion of activities of construction, finance and insurance, information and communication, electricity and water supply, wholesale and retail trade and transport and storage. However, there was contraction in tourism sector, mainly due to low hotel occupancy rates arising from insecurity concerns largely by international visitors.

Inflation has remained within the authorities' target band, averaging 6.49 percent in the last one year. Inflation declined from 7.03 percent in June 2015 to 5.84 percent in August 2015 mainly due to a decline in several food items as a result of favorable weather. There was however an increase in the category of Housing, Water, Electricity, Gas and other Fuels due to the surge in fuel cost adjustments and foreign exchange charges per KwH of electricity. The central bank has tightened monetary policy since June 2015 to anchor inflation expectations especially with the exchange rate depreciation.

Both the fiscal and external current account deficits have widened compared to the projected program path. The fiscal deficit reflects shortfalls in revenue collections and additional expenditure pressures, especially those related to security spending. The deterioration in current account balance in percent of GDP to 9.6 in July 2015 (12 months cumulative) partly reflects imports of aircraft equipment fully financed by loans from the African Exim Bank. Excluding these imports the current account as a percent of GDP moderates to 7.7 percent of GDP which is within acceptable range for net importer comparator country.

Foreign reserves have declined although they remain within the statutory requirement. By August 27, 2015, the reserves were US$6.392 billion (4.05 months of import cover) from US$7.43 billion (4.85 months of import cover) since the beginning of January 2015. The tapering capital inflows, central bank interventions to smooth the foreign exchange market, and decline in tourism receipts have also seen the exchange rate depreciate and weakening of the balance of payment position.

2) Program performance

The authorities continue to demonstrate their commitment to successful implementation of the program despite the prevailing exogenous shocks. All the end-March 2015 performance criteria were met except for the continuance performance criteria on national government external payment arrears, where temporary delays were experienced in repayment of some of the external obligations, reflecting coordination rigidities among the relevant entities rather than inability to pay. These arrears have since been fully settled and corrective measures adopted to avoid such recurrence. All end-June 2015 indicative targets were met except for the net international reserve (NIR) following tapering capital inflows since April 2015 and central bank interventions to stabilize the foreign exchange market. The target for net domestic assets (NDA) was also missed given the increased domestic financing needs. In this regard, the authorities are requesting for waivers under both Arrangements for the temporary non-observance of end-March continuous performance criterion on external arrears, and modification of the performance criteria for NIR and NDA.

Significant progress was made with implementation of the structural benchmarks although there were delays in completing some of them and others have been reset. Of the seven structural benchmarks for end-March and end-June, three were completed on time, and two with some delays, and the rest were reset for end-September with only one reset for end-December. The authorities are making significant progress towards completing the end-September structural benchmarks. In addition, the authorities completed all the financial sector reforms set for the program although they were not set as structural benchmarks.

3) Prospects and Macroeconomic Policies

With the risks to outlook tilted to the downside, the macroeconomic framework has been revised. The revisions reflect a projected lower GDP growth rate, higher inflation, and weakening balance of payments. These reflects the low oil prices that may impact negatively on FDI inflows for new oil explorations, security risks affecting the tourism sector, international market risks with expected unwinding of the unconventional monetary policy, and regional economic distress.

a) Fiscal policy

The authorities remain committed to preserving fiscal sustainability by maintaining debt at sustainable levels, and attaining the East Africa Monetary Union convergence criteria of fiscal deficit in the medium term. In this regard, on the revenue side, various tax policy and tax administrative measures are being implemented to enhance mobilization of domestic resources. These including the review and modernization of the Income Tax Act, and ensuring the tax procedures for VAT, Excise Duty, and Income Tax are under one law. The passage of the 2015 Finance Bill has seen an introduction of a simplified and modern Excise Duty.

On the expenditure side, the authorities have embarked on large public investment projects aimed to close the existing infrastructure gaps in the process of transforming the economy. As such, it is expected that development spending as a share of the total national government spending will increase to 41 percent in the current fiscal year. Rationalizing current spending remains a priority and the recently approved Capacity Assessment and Rationalization of the Public Service implementation plan is expected to facilitate easing the current expenditure pressures.

Further, the national government continues to support building capacity at the county level, especially to improve efficiency in public finance management and service delivery and promote rapid local economic development in the devolution process. The implementation of a framework establishing limits and guidelines for county government borrowing consistent with the PFM Act commenced in June 2015. At the same time, counties can access the central bank overdraft facility but this does not pose a threat to monetary policy operations because they will not access the facility over and above the national government's overdraft limit. The law sets a limit of 5 percent of recently audited accounts which cannot be exceeded by both the National and County Governments. Furthermore, the PFM regulations which have been gazette and awaiting parliament's approval stipulate that the overdraft should be retired within the year it was accessed.

Efforts to strengthen the capacity of the Debt Management Office are ongoing. The authorities are taking steps to address staffing and enhance the risks and compliance functions of the office. A technical assistant from US Treasury is on the ground to help strengthen the capacity building process. A work plan has been finalized and is awaiting approval in order to commence implementation. Further, the process of recruiting the Director for the DMO has commenced.

In addition, the authorities have made progress in enhancing government cash management. A sub-account structure of TSA model is being implemented in line with the PFM legal and institutional framework. The preparations toward finalizing the Service Level Agreement between the Treasury and the Central Bank are geared for completion as proposed by end-September 2015.

Furthermore, there is progress towards implementation of the parastatal reforms. A new Code of Governance for State Corporations, "Mwongozo", was launched by His Excellency the President in April 2015 to address governance and management challenges in parastatals. Further, the Government Owned Entities Bill 2014 which is meant to ensure parastatals adopt a leaner and more efficient management structure has been submitted to Cabinet, while the National Sovereign Wealth Fund Bill 2014 is being reviewed by the Attorney General before being submitted to Cabinet for discussion.

b) Monetary and financial policies

The key objective of monetary policy is to maintain price stability. In this regard, the authorities continue to monitor developments in the market and are prepared to take appropriate actions to anchor inflation expectations. At the same time, while they maintain a floating exchange rate regime, the authorities are committed to intervene only to stabilize excess volatility in the exchange rate market.

Significant progress has been achieved towards modernizing the monetary policy framework. The proposed increase in frequency of submission by National Treasury to Central Bank of the cash flow plans is aimed to further improve liquidity forecasting.

Deepening financial sector reforms is also a priority to safeguarding financial stability. In this regard, the central bank continues to strengthen the prudential oversight framework, including the review and implementation of the prudential guidelines on risk classification of assets and provisioning supervision and regulations of the banking sector. The central bank has also enhanced its ability to conduct stress testing of the banking system and continues to strengthen consolidated supervision.

c) Business environment

Improving business environment to encourage private sector innovation, entrepreneurship and business expansion is viewed as a prerequisite to achieving strong and sustained economic growth and poverty reduction. In this regard, addressing security concerns remains a top priority and more resources have been allocated to this sector to continue with the modernization program and reforms. In addition, to deepen the governance reforms, all ministries, departments and agencies are required to use the e-procurement module of the IFMIS to safeguard loss of public finances through corruption. The National Electronic Single Window System declaration module is now operational. Since July 2015, all importers and exporters are required to process their transactions through the system. The aim is to facilitate international trade by reducing delays while at the same time maintaining the requisite controls and ensuring efficient revenue collection. Further, since March 2015, the authorities have been implementing a Business Regulatory Reform Strategy to raise Kenya's global ranking under the World Bank's doing business indicators.

d) Data quality

Improving data quality to support policy making remains a top priority. In addition to the progress made in balance of payments and government financial statistics, the Kenya Integrated Household Budget Survey 2015/16 commenced on September 1 2015, with the results expected to be published end 2016. The authorities plan to subscribe to the Fund's Special Data Dissemination Standard by 2022.

4) Conclusion

Despite the prevailing downside risks, the authorities are committed to successful implementation of the two arrangements to achieve the objectives set for the program. They continue to treat these Arrangements as precautionary and will only draw under these Arrangements when an actual balance of payment need materializes. There is strong political ownership of the program and the authorities will continue their engagement with the Fund and other development partners in the process of meeting their development goals.