



# KENYA

February 2015

## REQUEST FOR STAND-BY ARRANGEMENT AND AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—STAFF REPORT; PRESS RELEASE; STATEMENT BY THE EXECUTIVE DIRECTOR FOR KENYA

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

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 2, 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 January 16, 2015
- A **Press Release** including a statement by the Chair of the Executive Board.
- 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 policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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# KENYA

## REQUEST FOR STAND-BY ARRANGEMENT AND AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY

January 16, 2015

### KEY ISSUES

**Fund arrangements:** The Kenyan authorities have requested precautionary access to Fund resources under a 12-month blended Stand-By Arrangement and Standby Credit Facility to protect against potential shocks, with access of up to SDR 488.52 million (180 percent of quota). In the event that exogenous shocks lead to an actual balance-of-payments need, the authorities would take additional corrective measures to complement the use of Fund resources and existing buffers. The first tranche of SDR 379.96 million (140 percent of quota) would become available upon Board approval.

**Program objectives:** The precautionary arrangements support continued prudent macroeconomic policies and a comprehensive program of macro-financial and institutional reforms to enhance prospects for sustainable and inclusive growth. The program will build on Kenya's successful introduction of institutional and economic reforms supported by a three-year Extended Credit Facility (ECF) arrangement that helped the country to build external buffers and maintain debt sustainable. Despite these achievements, the Kenyan economy remains vulnerable to security and weather-related shocks and to changes in global financial market conditions.

**Program conditionality:** The program targets a gradual fiscal adjustment to ensure medium-term fiscal deficits and public debt consistent with the convergence criteria of the East African Community (EAC) Monetary Union. The program also preserves fiscal space to enhance security and implement an ambitious public investment program aimed at addressing infrastructure bottlenecks and weather-related vulnerabilities. Structural reforms under the program focus on reinforcing public financial management, strengthening the monetary policy framework, mitigating financial stability risks, and upgrading data quality.

**Staff views:** Staff supports the authorities' request for a precautionary blended arrangement. The 12-month program would help Kenya anchor near-term macroeconomic policies while building buffers to better protect against volatility in global financial markets, as well as security- and weather-related risks. It would also address several key public financial management reforms, including to contain fiscal risks stemming from the ongoing devolution process.

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

Discussions were held in Nairobi during October 22- November 9, 2014. The staff team comprised Messrs M. Mecagni (head), E. Alper, N. Hobdari (all AFR); D. Moore (SPR); C. Abdallah (FAD); S. Aljabrin and M. Souto (MCM). Mr. R. Morales (Resident Representative) participated in the discussions, and Ms. Rose Ngugi from the Executive Director's office joined the mission. The mission met with Cabinet Secretary to the Treasury Rotich, Central Bank of Kenya (CBK) Governor Ndung'u as well as the President's Chief of Staff and Head of Public Service Kinyua, 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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## INTRODUCTION

**1. Kenya has made significant progress in recent years as a result of major institutional and economic reforms.** Following the approval of a new constitution in 2010, the authorities have embarked on important reforms including fiscal devolution, VAT reform, and the overhaul of the expenditure management framework. Supported by a three-year ECF, which expired in December 2013 with all six reviews completed, Kenya has consolidated macroeconomic stability. Growth has been robust, inflation contained, debt remained sustainable and reserve buffers increased (Tables 1a and 1b and Figures 1 and 2). This progress in a market-friendly environment has continued to attract the interest of foreign investors. As a result, Kenya is recognized as a frontier market increasingly integrated in global financial markets. A Eurobond debut issue of US\$2 billion (the largest in SSA so far) took place successfully in June followed by a \$750 million re-tap in December.

**2. Despite these important achievements, the Kenyan economy remains vulnerable to exogenous shocks and is facing a number of policy challenges:**

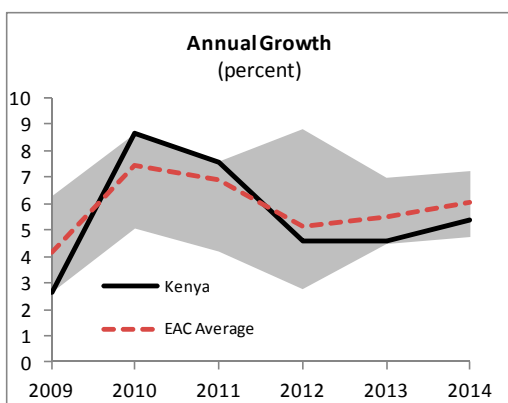
- **Global markets exposure.** Annual capital inflows have reached about 10 percent of GDP in recent years, making Kenya vulnerable to shifts in investor sentiment (Annex 1).
- **Financial sector risks.** Rapid credit growth and the expansion of Kenyan banks abroad are creating pockets of vulnerabilities. NPLs remain moderate for the system as a whole, but are on the rise, especially in smaller banks, and provisions have declined (Table 5 and Figure 5).
- **Security and weather related risks.** Security concerns affect tourism and the business environment. Recurrent security threats already have a significant impact on for Kenya's tourism sector. Additionally, Kenya's economy remains vulnerable to droughts, given the prevalence of rain-fed agriculture and high dependence on hydro-power generation (Annex 1).
- **Fiscal risks.** Devolution, key to political stability and social cohesion, is facing transitional problems and raising expectations that are putting pressures on public resources and the design of the new counties' borrowing framework.<sup>1</sup> Moreover, the fast-track devolution rollout has magnified cash and liquidity management challenges.

**3. The authorities have requested a precautionary program supported by SBA-SCF arrangements to protect the economy while they address these vulnerabilities.** The arrangement would provide a buffer against the impact of potential exogenous shocks and provide a policy anchor to assist the authorities in maintaining macroeconomic stability; enabling them to enhance security; and implementing their ambitious public investment program aimed at removing bottlenecks to private sector growth and mitigating the impact of weather-related shocks. The authorities are also improving public finance management to contain fiscal risks and strengthening financial sector prudential oversight.

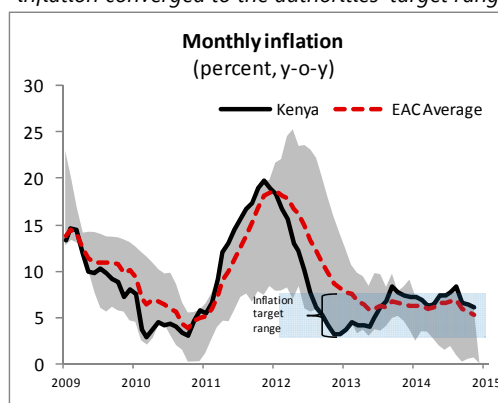
<sup>1</sup> For more details on devolution see Annex I in the recent [Article IV staff report](#).

Text Figure 1. Kenya: 2009-14

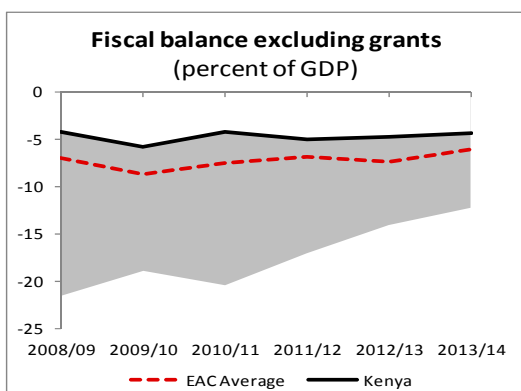
GDP growth has been robust...



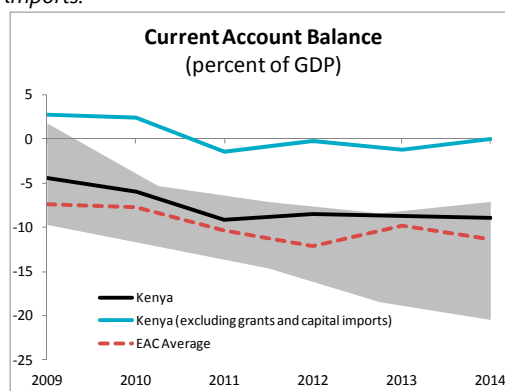
...and following the severe drought in the Horn of Africa, inflation converged to the authorities' target range.



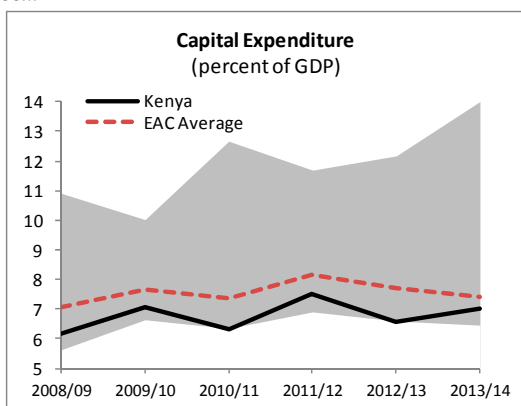
Kenya's fiscal deficit has been relatively low...



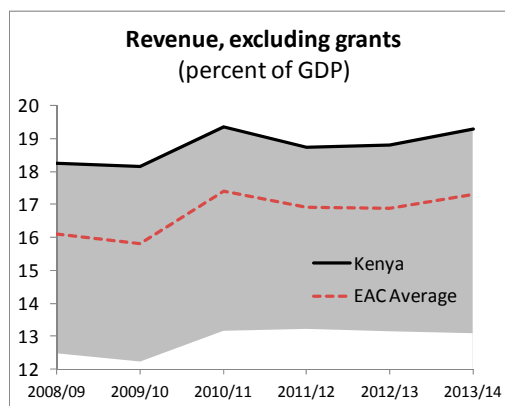
...with persistent current account deficit due to capital imports.



Public spending on priority infrastructure projects is on the rise...



...financed in part by higher revenues.



Sources: EAC Authorities and IMF staff estimates.

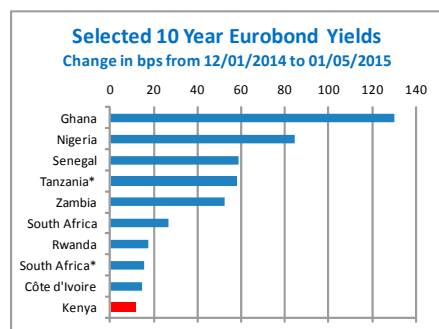
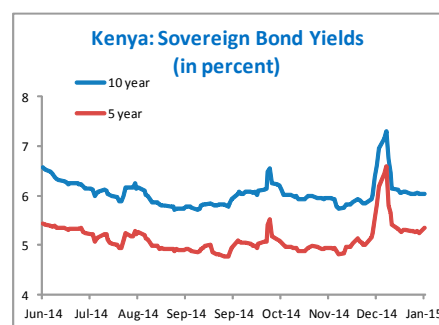
Notes: EAC Average weighted by PPP GDP includes Burundi, Kenya, Rwanda, Tanzania and Uganda. Shaded regions show range between the minimum and the maximum values in the region.

## RECENT ECONOMIC DEVELOPMENTS

**4. GDP growth remains robust, supported by strong credit growth and a dynamic investment environment** (Figure 1). Revised national accounts released in September 2014 indicate a more robust growth trajectory with real growth higher by 1¼ percent on average in the past five years. The economy expanded by 5.3 percent year-on-year in real terms during the first three quarters of 2014, reflecting strong activity in construction, manufacturing and retail trade. However, poor rains have constrained agriculture growth, and security concerns have adversely affected tourism. Annual growth is expected to remain above 5¼ percent in 2014 reflecting the increase in geothermal energy generation capacity and the commencement of activities related to the Mombasa-Nairobi standard gauge railway (SGR) project (¶9).

**5. Inflation has begun to ease** (Figure 3). After exceeding the authorities' target range ( $5\pm 2\frac{1}{2}$  percent) in July and August, headline inflation continued to decline and reached 6.0 percent in December. This reflects lower electricity costs as a result of Kenya's investment in geothermal power generation coming on stream (Box 1) as well as lower international oil prices.

**6. Strong private inflows and the proceeds from Kenya's international bond placements lifted international reserve cover.** Gross international reserves stood at US\$ 8.0 billion ( $4\frac{1}{2}$  months of prospective imports) at end-December 2014. In December 2014, the authorities re-opened their June debut sovereign issuance, raising an additional \$750 million split between five-year (\$250 million) and 10-year (\$500 million) maturities, with yields about 100 basis points lower than at original issuance. Shortly after this re-opening, however, a bout of global financial market volatility caused a sharp increase in Eurobond yields for Sub-Saharan African frontier markets including Kenya (text figure). The current account deficit remains high, reflecting strong capital-goods imports, though mitigated by the decline in oil prices (Tables 4b and 4d).<sup>2</sup> Anecdotal evidence suggests a further pickup in FDI, though this is poorly captured by the available BOP statistics (Figure 2).<sup>3</sup>



Source: Bloomberg.  
\*South Africa's 12-year bond issued July 2014; Tanzania's 7-year bond issued March 2013.

<sup>2</sup> The large decline in oil prices has limited near-term impact on Kenya's projected oil imports due to hedging by the large oil importers.

<sup>3</sup> For more detail see Appendix 1 in [ECF sixth review staff report](#) and the discussion in the 2014 [Article IV staff report](#).

### Box 1. Kenya: Energy Reforms—Increasing Supply, Lowering Costs, and Expanding Access

**Reforms introduced in 2004 eliminated energy subsidies and contributed to increased access to electricity.** The authorities introduced an automatic pass-through mechanism to adjust electricity tariffs for changes in costs, eliminating subsidies. They have also made significant progress in reducing losses, improving collection rates, and increasing access to electricity (by about 140 percent between 2005 and 2011).

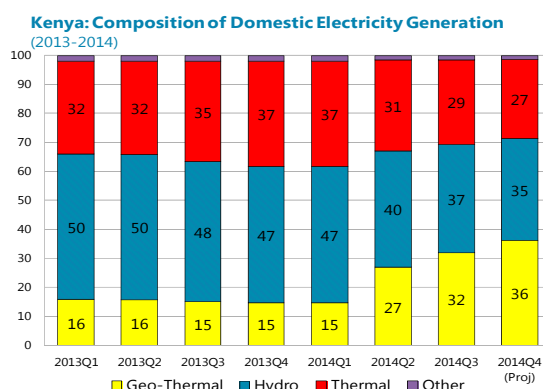
**However, generation capacity has not kept pace with demand.** This has contributed to power rationing (especially during dry seasons given the large share of hydro-power generation). The government has embarked on an ambitious program to overcome this gap. The authorities aim at increasing electricity generation capacity by 5000 MW during 2014-16. This is to be achieved through a combination of public investments in government utilities and independent private sector participation via PPPs in renewable and traditional energy sources. The strategy is expected to reduce unit electricity generation cost by about 1/3 by 2017.

Kenya: Energy Generation Capacity (MW)

	Jun-13	Dec-14		Dec-15	Dec-16
	Actual	Target	Est.	Target	Target
Hydro	770	794	794	794	794
Thermal	622	872	872	872	872
Geo-thermal	241	697	797	952	1,887
Wind	5	25	25	385	635
Coal	0	0	0	960	1,920
LNG	0	0	0	1,050	1,050
Other	26	44	44	44	44
<b>Total</b>	<b>1,664</b>	<b>2,432</b>	<b>2,532</b>	<b>5,057</b>	<b>7,202</b>

Source: Ministry of Petroleum of Kenya, Investment Prospectus (2013-16).

**An ambitious energy investment program is underway that will increase supply and reduce Kenya's vulnerability to weather-related shocks.** About 280 MW were added to the national grid in the second half of 2014. This more than doubles geothermal generation capacity, and represents an overall increase of 18 percent of Kenya's generation capacity (Text Figure). With the cost of electricity from geothermal sources at about US\$7 cents per kilowatt hour compared with US\$22 cents for thermal plants, the unit electricity cost has declined by about 25 percent in recent months. This translates in total savings for the economy of about 1 percent of GDP per year. Additional planned geothermal power plants will further reduce Kenya's reliance on weather-dependent hydro-power generation.



Source: Kenyan Authorities

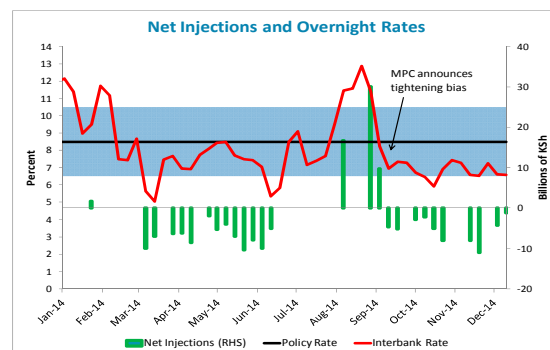
**Access to electricity continues to improve.** The authorities' are focusing on completing connection of all primary public schools to the national grid by June 2015 (from below 50 percent in June 2014). Progress in this area is on track. The next phase is to enhance electricity supply in rural areas, for which the authorities are currently formulating a comprehensive strategy with other stakeholders.



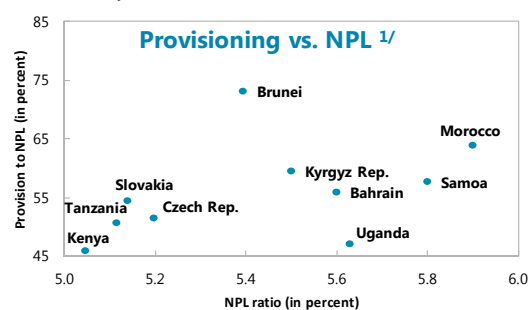
**7. Overall market conditions are broadly favorable** (Figure 6). The Kenyan Shilling remains on a broadly stable path of gradual depreciation vis-à-vis the US dollar, largely reflecting developments in international financial markets. In recent months, however, the interbank rate deviated, at times significantly, from the policy rate, reflecting changes in liquidity conditions, with volatility explained by devolution-related flows of government deposits at the Central Bank of Kenya (CBK).

**8. Kenyan banks continue to expand domestic credit, provide access to new borrowers, and increase their operations beyond Kenyan borders** (Figure 5). The banking sector remains profitable and well-capitalized, but provisions are lately lagging behind a pickup in NPLs, which moderated slightly in September (5½ percent of total loans). Credit growth (25 percent) continues to outpace deposit growth (20 percent) reflecting a more intensive use of medium-term mostly concessional foreign currency lines for SME project financing. Financial inclusion has increased, with 75 percent of the population having access to formal or informal financial services at end-2013.

**9. The SGR project constitutes a key initiative among authorities' stepped up efforts to address pressing infrastructure bottlenecks** (Box 2). It constitutes the first phase of a large regional project aimed at closing significant gaps in rail transport infrastructure in the EAC and involves investments of about US\$4 billion (6 percent of GDP) during 2014-18.<sup>4</sup> The project is expected to result in both shorter freight delivery time and lower transportation costs, boosting regional trade. At its peak in 2015/16, it is expected to create jobs for about 30,000 local workers. Pressures on the domestic economy are expected to be limited, however. There is currently excess unskilled labor, the new jobs accounts for only about ¼ percent of total employment in Kenya at end-2013, and the import content is large (over 60 percent). The authorities expect a significant increase in freight rail traffic from the SGR, sufficient to ensure its economic viability.



Source: Kenyan authorities.



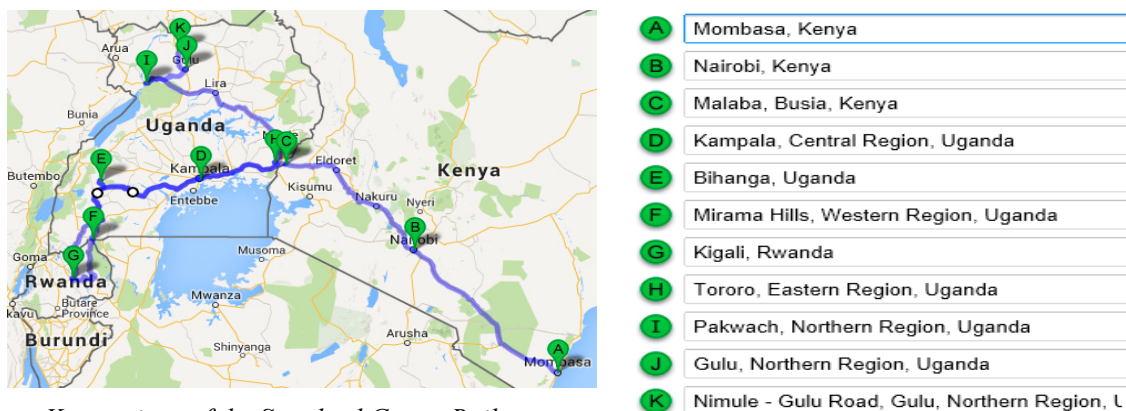
Source: IMF FSI database, based on data submission by government countries' authorities.

1/ Based on a sample of countries with NPL ratio between 5 and 6, as of Dec. 2013.

<sup>4</sup> For more details on transport infrastructure gaps in Kenya and the region see World Bank (2014), "Connecting to Compete 2014: Trade Logistics in the Global Economy".

### Box 2. The Standard Gauge Railway (SGR)

Kenya started in October 2014 the construction of a new Standard Gauge Railway (SGR) between Mombasa and Nairobi. This 600 km project constitutes the first phase of a much larger regional project that will eventually link Mombasa-Nairobi-Kampala-Kigali.<sup>1</sup> It is expected to have a large impact on trade and economic integration in the EAC region, including by reducing cost of transportation, improving safety margins, and expanding capacity in the medium to long-run.<sup>2</sup>



*Key stations of the Standard Gauge Railway*

- The government of Kenya will finance 10 percent of the amount (US\$400 million), and the remaining 90 percent (US\$3.6 billion) will be financed by Exim Bank China through two separate loans: (i) a semi-concessional loan (US\$1.6 billion), at an interest rate of 2 percent, paid over 20 years, and with a grace period of 7 years; and (ii) a commercial loan (US\$2 billion), at an interest rate of 6 month-LIBOR plus 3.6 percent, paid over 15 years, and with a grace period of 5 years. The loans are contracted by the government and are on-lent to Kenya Railways Corporation. Future revenues from the SGR will be used to repay the loans.
- Interest payments during the grace period will be covered by the government of Kenya from budgetary allocations and the resources from the Railway Development Fund, which will be fed by the 1.5 percent railway levy introduced in 2013 on the customs value of all non-EAC imports to Kenya.
- Around 65 percent of the funds will be used to finance civil works, while the remaining will finance the supply and installation of facilities, locomotives and rolling stock. The number of specialized Chinese workers will peak at about 2,500. About 30,000 local workers will be employed at the peak of the construction phase in 2015/16.

<sup>1</sup> The design and feasibility study for the second phase linking Nairobi with Malaba on the Ugandan border are still at a preliminary stage.

<sup>2</sup> The SGR project will have a maximum capacity of 22 million tons per annum, which would enable it to be lifting at least 40 percent of freight delivered at Mombasa by 2035.

## OUTLOOK AND RISKS

**10. Under baseline projections, GDP growth is expected to pick up, inflation to converge towards the mid-point of CBK's target range, public debt to remain sustainable, and the reserve cover to stay at a comfortable level** (Tables 1-4).

- **GDP growth** is expected to accelerate in 2015 and average about 7 percent over the medium term. This reflects a faster scaling up of public investments in infrastructure, including a frontloading of the SGR project (¶16). Output gains from higher public investments are significant, from short-term demand effects and long-term supply effects in reducing infrastructure bottlenecks in transport and power generation (Annex II). Strong medium-term growth is also predicated on rising private investment, helped by an improved business environment, the expansion of financial inclusion, and deeper regional integration. The baseline growth takes into account the recent decline in oil prices and weakness in tourism reflecting security concerns.
- **Inflation** is projected to remain within the CBK's upper target range through end-2014 and to gradually converge towards the middle of the band, under the assumption of declining international oil prices and prudent monetary policies.
- **Public debt** is expected to remain sustainable with low risk of external debt distress even after incorporating the projected surge in infrastructure project financing (including SGR). While stepped up public and private investments would raise both the fiscal and current account deficits in 2015/16, both are expected to gradually decline over the medium term, reflecting the authorities commitment to reduce the fiscal deficit below 3 percent of GDP by 2021, in line with the EAC Monetary Union convergence criteria.
- The **reserve buffer** is expected to remain at comfortable levels. Gross reserves are projected to stay close to 4½ months of prospective imports in the medium term despite higher imports, and about 27 percent of broad money.

Kenya: Macroeconomic Outlook, Baseline						
	2013	2014	2015	2016	2017	2018
	Prel.	Est.	Proj.			
Real GDP growth	5.7	5.3	6.9	7.2	7.1	7.0
CPI inflation, average	5.7	6.9	5.2	5.3	5.1	5.1
CPI inflation, eop	7.1	6.0	5.4	5.1	5.1	5.0
Current account balance (percent of GDP)	-8.7	-8.6	-7.3	-7.1	-6.6	-7.5
Primary fiscal balance (percent of GDP)	-3.0	-4.3	-5.1	-3.8	-2.3	-1.9
Gross international reserves (in billions of US\$)	6.6	8.0	8.4	9.2	10.1	11.0
Gross international reserves (months of prospective imports)	4.0	4.6	4.4	4.4	4.2	4.3
Total public debt (gross, percent of GDP)	44.1	48.4	50.3	50.6	49.9	49.0

Sources: Kenyan authorities and IMF staff estimates and projections.

**11. Risks to this outlook are tilted to the downside in the near term, but more balanced over the medium term.** Growth could be affected by a sudden shift in global investors' risk sentiment, further deterioration in security conditions, large weather-related shocks (especially in the near term, until the energy and irrigation projects underway fully materialize), and/or weak regional and global growth. By the same token, a significant improvement in security conditions, following the authorities' ongoing efforts (MEFP ¶21), would boost growth over the medium term by improving tourism and investor confidence. A sustained drop in oil prices could induce higher-than-envisaged domestic demand, but may adversely affect investment in the oil sector. In the longer term, higher growth could be further supported by oil and gas exploitation, if the commercial viability of recent discoveries is confirmed.

**12. The impact of Kenya-specific and external shocks could be nonetheless significant.** Under an adverse scenario, a sharp deterioration in security conditions (e.g., a repeat of the Westgate terrorist attack) would affect tourism receipts, confidence, and country risk assessment by foreign investors, adversely affecting FDI and portfolio flows. A drought would lower agriculture production and adversely affect hydropower generation, requiring higher imports of food and fuel products. In terms of policy response, the flexible exchange rate would act as a shock-absorber and monetary policy would bear the brunt of the policy adjustment to prevent second-round effects on inflation from the expected exchange rate depreciation. Fiscal policy is expected to mitigate the impact of the shocks, by reprioritizing spending to cushion vulnerable groups and preserve public investment programs. The room for fiscal policy to adjust for demand management purposes is limited in the near term by the ongoing devolution process mandated by the Constitution and the authorities' commitments to infrastructure projects. However, if the magnitude of the shocks were to make financing constraints binding, fiscal policy will have to adjust.

**13. Under this adverse scenario, a significant financing gap could emerge, triggering a balance-of-payments need.** While Fund financing and possible subsequent disbursements from other multilateral creditors (see section on Program Modalities) would help to mitigate the impact of exogenous shocks, GDP growth would be lower relative to the baseline (by about 4¼ percentage points cumulatively during 2015-17), with higher inflation, current account deficits, and public debt ratios.

<b>Kenya: Macroeconomic Outlook, Adverse Scenario</b>						
	2013	2014	2015	2016	2017	2018
	Prel.	Est.	Proj.			
Real GDP growth	5.7	5.3	3.9	5.7	6.4	6.8
CPI inflation, average	5.7	6.9	5.4	6.2	5.8	5.2
CPI inflation, eop	7.1	6.0	6.2	6.0	5.4	5.0
Current account balance (percent of GDP)	-8.7	-8.6	-9.9	-7.9	-6.7	-7.7
Primary fiscal balance (percent of GDP)	-3.0	-4.3	-5.6	-5.1	-4.0	-3.3
Gross international reserves (in billions of US\$) 1/	6.6	8.0	6.9	7.1	8.1	9.1
Gross international reserves (months of prospective imports)	4.0	4.6	3.7	3.5	3.4	3.6
Total public debt (gross, percent of GDP)	44.1	48.4	53.1	55.3	56.0	55.7

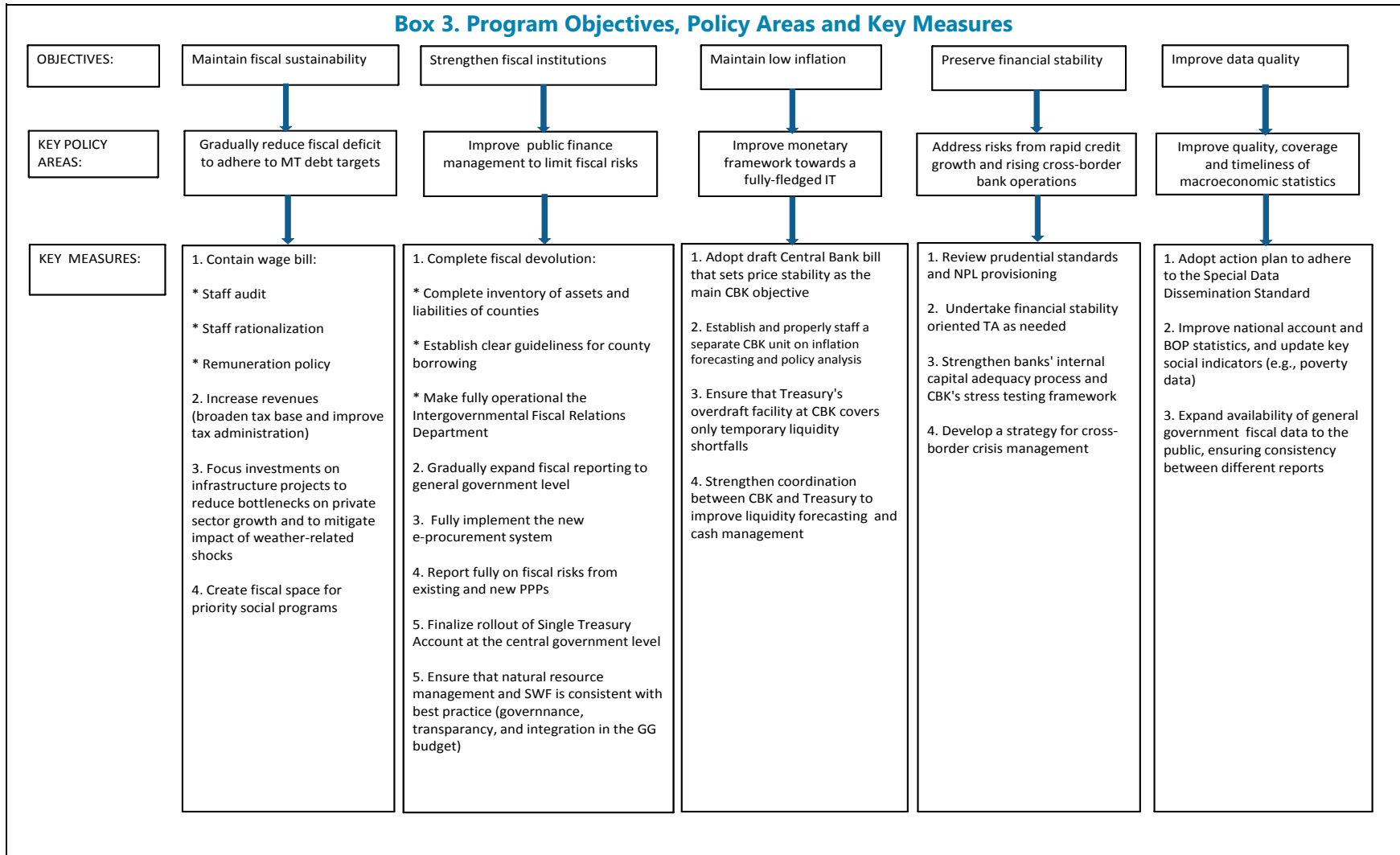
Sources: Kenyan authorities and IMF staff estimates and projections.  
1/ Assumes purchases under the SBA/SCF arrangement.

## PROGRAM POLICIES

**14. The proposed new Fund arrangement would provide a policy anchor for continued macroeconomic and institutional reforms, help to mitigate the impact of potential exogenous shocks while these reforms are being pursued, thereby supporting continued strong growth and durable poverty reduction.** The program focuses on the following policies (Box 3):

- Maintaining a sustainable medium-term debt path consistent with regional convergence commitments, while preserving fiscal space to implement the ambitious public investment program aimed at (i) supporting economic development; (ii) minimizing vulnerabilities to weather-related shocks; and (iii) reducing infrastructure bottlenecks.
- Taking decisive steps to strengthen public financial management, including to contain fiscal risks from PPPs and the devolution process.
- Further modernizing the monetary policy framework, to facilitate the transition to a fully-fledged inflation targeting framework.
- Improving financial oversight to address financial sector vulnerabilities stemming from rapid credit growth and fast expansion of cross-border operations by Kenyan banks.
- Upgrading data quality to strengthen policy making, address gaps, and facilitate transition to frontier/emerging market status.

### Box 3. Program Objectives, Policy Areas and Key Measures



## A. Fiscal Policy: Addressing Bottlenecks while Preserving Sustainability

**15. Policy objectives:** The authorities' fiscal anchor under the program is maintaining a sustainable public debt position. Consistent with this objective, the fiscal program accommodates higher infrastructure and security spending, aimed at reducing bottlenecks to growth and mitigating security and weather-related vulnerabilities while addressing fiscal risks. The authorities consider poverty and inequality reduction a key priority (Table 10). Accordingly, expenditure control efforts allow for additional resources for social programs that support inclusive growth. After a temporary increase related to SGR-related spending, a key priority project of regional importance, the program targets a gradual reduction in the central government primary deficit to 1.7 percent of GDP in 2018/19, down from 5.1 percent in 2014/15 and 2015/16, through restraint on current spending and revenue mobilization efforts. The fiscal program sets Kenya on a path consistent with meeting the EAC Monetary Union convergence criteria.

**16. The government intends to reorient expenditures towards higher public investment, by enhancing control over current spending** (MEFP ¶9, 11). In line with their "Vision 2030" development agenda, the authorities intend to shift the composition of spending in favor of development priorities (i.e., higher infrastructure and priority social spending) and are taking steps to raise execution rates on infrastructure projects. Specifically, development spending is projected to increase to 9 percent of GDP over the medium term, from 6½ percent in 2012/13. This is also expected to have a large impact on growth (Annex II). At the same time, the authorities are taking decisive measures to contain the general government wage bill (Figure 4), by completing payroll audits of the core civil service,<sup>5</sup> pursuing civil service rationalization, and streamlining pay and allowances.<sup>6</sup>

**17. Revenue mobilization efforts will focus on broadening the tax base and improving revenue administration** (MEFP ¶10). The program will seek to further improve tax revenue with measures broadening the base for income taxes and VAT, and higher excises. Additionally, the program will seek to expand the implementation of user-friendly taxpayer interface, *iTax* (integrated tax management system), and simplify tax payments procedures with a view to improve compliance and the efficiency of tax collection. These measures are estimated to generate additional revenues of about 1.1 percent of GDP cumulatively over the next five years.

**18. The authorities are taking steps to maintain fiscal discipline as the devolution process continues** (MEFP ¶12). They intend to deal with transitional teething problems, common to devolution episodes, while enforcing the PFM framework. Their program addresses wage and

<sup>5</sup> Preliminary results from biometric registration through mid-November 2014 indicate about 0.1 percent of GDP annual fiscal savings from the exclusion of 12,500 "ghost workers" accounting for 7 percent of the civil servants.

<sup>6</sup> For more details on the general government wage bill see Figure 4 in the 2014 [Article IV staff report](#).

payroll issues; debt inherited from previous local authorities; establishing limits and guidelines for county government borrowing; and capacity building at the county level to improve local revenue collection, with the assistance of the Intergovernmental Fiscal Relations Department at the National Treasury.

## **B. Public Financial Management: Mitigating Risks and Increasing Accountability**

**19. Policy objectives:** The authorities' program seeks to advance the reforms currently underway to strengthen cash and debt management, improve the fiscal reporting system, prevent delays in government payments to contractors, and better manage fiscal risks including from PPPs.

**20. The authorities are committed to improving public cash and debt management** (MEFP ¶ 13). Key measures include: (i) ensuring full implementation of the Treasury Single Account (TSA) at the central government level by 2014/15; (ii) gradually developing capacity to implement the TSA at the county level; and (iii) producing GFS-compliant consolidated fiscal accounts, initially for national government and parastatals (September 2015) and expanding to county governments by end-2015; and (iv) finalizing the development of a framework for county borrowing and integrating it within the general government medium-term debt strategy (approved borrowings will be incorporated in the multi-year budgets of counties).

**21. The implementation of parastatal reforms will improve accountability and reduce budgetary transfers for recurrent spending to non-commercial state entities** (MEFP ¶14). The recommendations of the Parastatal Taskforce—appointed by the President in July 2013—address contingent liability risks emanating from government-owned entities and introduce a new structure for their operations. Based on the recommendations, the implementation committee prepared the Government Owned Entities Bill with a view to separate commercial activities from non-commercial roles of regulation and service delivery. The Bill includes a code of governance for government-owned entities to address the effectiveness of their supervisory boards, and promotes improved transparency, accountability, and risk management.

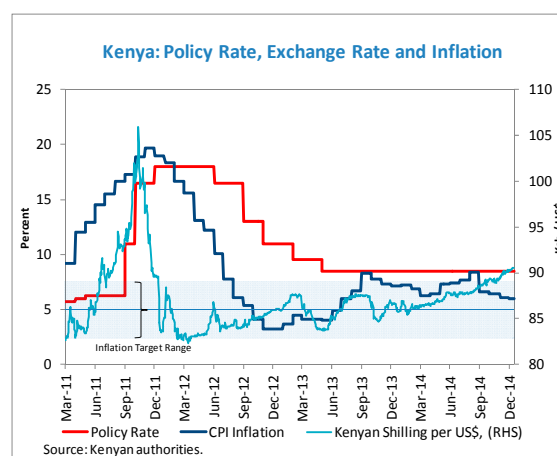
**22. The authorities are committed to adopting a strong legal framework for natural resource management** (MEFP ¶15). New bills before Parliament and under preparation will ensure that the potential boost in fiscal revenues over the medium term from ongoing exploration results for oil, gas and other natural resources will be (i) fully and transparently recorded; and (ii) their use fully accounted for in the context of the budget reporting system. The authorities intend to submit a National Sovereign Wealth Fund Bill in the current fiscal year with provisions that would be fully consistent with the PFM law and conforming to international best practices regarding transparency, accountability, and integration into the budget.



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

**23. Policy objectives:** The CBK will maintain a prudent policy stance and a flexible exchange rate regime, focusing on bringing headline inflation down to the mid-point of the target range ( $5 \pm 2\frac{1}{2}$ ). The program enshrines the price stability objective with the adoption of a monetary policy consultation clause (MEFP ¶16). It targets a strong international reserves buffer against external shocks consistent with the EAC monetary union convergence criterion ( $4\frac{1}{2}$  months of imports).

**24. Further improvements to the monetary policy framework will support the transition to full-fledged inflation targeting** (MEFP ¶17). The CBK has taken a number of steps in recent years to improve its inflation forecasting ability (Box 4) and the policy response has managed to anchor inflation within the target range following the large shock to food prices in 2011 (Text Figure). The new CBK Act will introduce further institutional changes, upgrading the CBK's institutional capacity in anchoring inflation expectations.



**25. The authorities will take steps to enhance the CBK's liquidity management.**

Strengthening the interest rate transmission mechanism, and enhancing the credibility of the policy rate and the functioning of money markets depend on more flexible use of monetary instruments and improved liquidity forecasting. The CBK is committed to using all tools available to align the interbank rate more closely with the policy rate. Additionally, staff and authorities agreed that implementing the Treasury Single Account (TSA) and upgrading coordination between the National Treasury and the CBK in money market operations are essential to meeting these objectives. In line with the transition to inflation targeting, the authorities intend to further rationalize access to the CBK's overdraft facility, while allowing room during the transition and within the legal ceiling (5 percent of the latest audited revenues) to deal with situations of urgent liquidity needs. Additional steps include increasing the frequency of cash flow submission by the National Treasury to the CBK as well as strengthening analytical capacity in cash and debt management at both the National Treasury and the CBK.

#### Box 4. Kenya: Towards a Full-Fledged Inflation Targeting Framework

In recent years the CBK has taken several steps towards an inflation-targeting framework.

- **Mandate and accountability.** The Central Bank Act stipulates that the National Treasury and CBK jointly set the inflation target for every fiscal year. Currently, the inflation target range is  $5 \pm 2.5$  percent. In case of deviations from the target range for three consecutive months, the CBK must provide the Treasury with its assessment of the underlying factors and the corrective measures needed to address those deviations. The CBK must also inform the public about the inflation outlook and its policies following Monetary Policy Committee meetings. Amendments to the Central Bank Act enshrining price stability as CBK's overriding policy objective will be submitted to Parliament in early 2015.
- **Monetary framework.** The CBK introduced in October 2011 a new framework for monetary operations, centered on its policy rate (CBR). To further strengthen its policy analysis, the CBK has been using since early 2013 an in-house forecasting and policy analysis system (FPAS), and has recently created a Monetary Policy Analysis Unit to provide the Monetary Policy Committee with inflation projections and analysis using FPAS.
- **Kenya compares favorably with other countries at the time of adoption of inflation targeting.** First, on average, emerging markets had average inflation rates of 19 percent and standard deviation of 5 percent before they moved to inflation targeting.<sup>1</sup> Second, most industrial and some emerging market countries introduced inflation targeting even before revising their legal framework. Finally, several countries had multiple objectives for monetary policy when they started.<sup>2</sup>

<sup>1</sup> Mishkin, F., and K. Schmidt-Hebbel; 2007, Does Inflation Targeting Make a Difference, NBER Working Paper 12876.

<sup>2</sup> For instance, Brazil, Australia, Canada, Chile, Israel and South Africa.

## D. Financial Policy: Enhancing Oversight to Mitigate Financial Stability Risks

**26. Policy objectives:** Enforcement of the prudential framework will help safeguard against shocks and manage emerging risks associated with (i) rapid credit growth; (ii) rising cross-border operations; and (iii) expanded bank holding structures.

**27. To this end, the authorities are taking steps to improve both micro and macro prudential oversight** (MEFP ¶19). They agreed to perform analyses to ensure appropriate asset risk classification and collateral valuation, and adequate provisioning levels commensurate with the risks faced by a fast-growing banking industry and a rising share of lending in foreign-currency. Progress in these areas will be assessed throughout the program to ensure that systemic risks remain contained. As part of the process of improving risk assessment capacity, the authorities will start

collecting data on restructured loans; take actions to avoid evergreening of bank credit; and the CBK will enhance its stress-testing capacity.

**28. Strengthening of cross-border supervision will continue.** The recent expansion in cross-border activities by Kenyan banks requires information sharing and coordination with host countries' supervisors, as well as ensuring that regulation and supervision in host countries are effective. In this regard, the authorities are developing a framework to assess the quality of supervision in the most relevant EAC host jurisdictions and improving capacity on consolidated supervision with the help of Fund AFRITAC East technical assistance. In addition, effective implementation of the AML/CFT framework could complement efforts to address security risks.

## E. Improving Data Provision and Quality: Supporting Policy Making

**29. Policy objective:** The authorities are committed to upgrading key macroeconomic data up to emerging market standards, as they are aware that Kenya now faces more intensive monitoring by private investors and credit rating agencies (MEFP ¶22). In particular, the quality and scope of information on the balance of payments and the international investment position will be revamped, and additional information on social and labor market indicators will become available with the help of new surveys.

**30. The authorities have developed a 5-year action plan to adhere to the Special Data Dissemination Standard (SDDS),** covering production indices, labor market and the International Investment Position, especially private debt. The CBK and the KNBS intend to implement a coordinated action plan to improve balance of payment statistics. Official unemployment statistics will be provided for the first time in 2016.

## PROGRAM MODALITIES

### A. Access and Phasing

**31. To guard against potential shocks staff proposes access of 180 percent of quota, which the authorities intend to treat as precautionary.** Kenya does not face an actual balance of payments need and its economic program aims to maintain a stable and sustainable macroeconomic position consistent with strong growth and durable poverty reduction. Nevertheless, risks to the balance of payments remain. In particular, Kenya remains vulnerable to abrupt changes in investor sentiment, a sharp deterioration in security conditions, and adverse developments in weather conditions that could generate potential balance of payments needs. Staff estimates indicate that the impact of such potential shocks could amount to about US\$2½ billion in 2015 (Table 6). Under such a scenario, drawings under the proposed program supported by

SBA-SCF arrangements amounting to around US\$725 million (SDR 488.52 million, equivalent to 180 percent of quota) would help contain reserve losses and help maintain sufficient reserve cover to avoid triggering a deeper spillover on investors' confidence. Other multilateral institutions (AfDB and World Bank) and bilateral donors could be expected to provide additional financial support if shocks were to materialize, albeit with a delay.

**32. To provide upfront insurance against these potential shocks, access under the program is proposed to be frontloaded, with a blend of GRA and PRGT resources.** Kenya meets the criteria for blended access: its GNI per capita (USD 1,160 in 2013) exceeds 80 percent of the current IDA operational threshold (USD 1,215), and it has a demonstrated record of access to international markets. The proposed 12-month program supported by SBA-SCF arrangements has an access of 180 percent of quota, of which 130 percent of quota under the GRA component and 50 percent under the PRGT component (Table 7).<sup>7</sup> Access upon approval would total 140 percent of quota (100 percent GRA, 40 percent PRGT); 20 percent of quota would be available upon completion of the first review, and 20 percent of quota upon completion of the second review.

## B. Program Conditionality and Monitoring

**33. The attached LOI and MEFP describe the authorities' program objectives and policies under the proposed Fund-supported arrangement.** The proposed 12-month program timeframe would allow the authorities to implement a number of reforms aimed at reducing fiscal and financial risks. The proposed arrangement would be monitored with semi-annual reviews. Quantitative performance criteria (March 2015 and September 2015 test dates) and indicative targets (June 2015 and December 2015) and macro-critical structural benchmarks are proposed (MEFP Tables 1 and 2). The first program review planned for mid 2015, would assess the consistency of the authorities' 2015 Medium-Term Budget Policy Statement with the program framework. The second program review, scheduled for late 2015, would re-evaluate Kenya's vulnerability to shocks.

## C. Capacity to Repay the Fund and Risks to the Program

**34. Kenya has a strong capacity to repay the Fund, and has serviced fully its previous obligations to the Fund, and avoided debt relief under the HIPC and MDRI initiatives.** Although Kenya has significant PRGT credit outstanding, the proposed access would not affect significantly the level of total debt. The Debt Sustainability Analysis update (Annex III) finds that even assuming full drawings under the proposed program, Kenya remains at low risk of debt distress (Tables 8 and 9). Kenya's capacity to repay would be enhanced in the medium to long term if recent sizeable oil and gas discoveries are confirmed as commercially viable and come on stream.

<sup>7</sup> PRGT disbursements outstanding at end-December 2014 amount to 242 percent of quota relative to the cumulative PRGT resources access limit of 300 percent of quota.

**35. The main risks to the program are:** (i) political instability eroding program ownership; (ii) strains in the relations between the central government and counties that could weaken fiscal discipline at the general government level; (iii) weaker than expected results in improving revenue administration and collection; (iv) banks' expansion of domestic credit and cross-border activities that outpace prudential oversight capabilities; and (v) an unmonitored buildup of external vulnerabilities in the private sector before data gaps are addressed.

**36. Safeguards.** A safeguards assessment of the Central Bank of Kenya has begun. Completion of the assessment is envisaged, and required, by the time of the first review.

## STAFF APPRAISAL

**37. Kenya is reaping the benefits of sustained and far-reaching institutional and economic reforms.** The ongoing implementation of devolution—a major institutional reform mandated by the 2010 Constitution—is strengthening social cohesion and promoting political stability. Sustained economic reforms under the recent ECF arrangement have contributed to strengthening macroeconomic stability, growth and external buffers. As a result, Kenya remains at low risk of external debt distress and foreign investors are increasingly recognizing Kenya as an attractive frontier market.

**38. Nonetheless, the economy remains vulnerable to shocks.** Kenya's growing integration in global markets also means increasing exposure to changing global liquidity conditions. A deterioration of security conditions could adversely affect investor sentiment. In addition, rapid credit growth and the fast expansion of Kenyan banks abroad are creating pockets of financial vulnerabilities. Kenya also remains vulnerable to weather-related shocks. While efforts to address these vulnerabilities are being accelerated, the payoff will take time.

**39. To bolster resilience to shocks, policies should focus on preserving fiscal, financial and international reserve buffers, and on consolidating macroeconomic gains.**

- **Fiscal policy:** Maintaining a sustainable path for public debt remains a key priority. The frontloaded scaling up of infrastructure investments underway will foster regional integration, and remove bottlenecks to private sector activity, thus contributing to accelerated medium-term growth. However, it will also involve a temporary increase in the primary deficit. Moreover, the pace of public debt increase and the rising number of PPP arrangements that may involve contingent liabilities require continuous efforts towards prudent fiscal policies over the medium term to maintain debt sustainability. The authorities' commitment to contain current spending (especially the wage bill), and to mobilize additional domestic revenue will be critical to keep their infrastructure development drive within sustainable bounds while meeting regional convergence criteria.
- **PFM reforms:** The authorities' plan to strengthen accountability and build capacity at the county level are welcome. These include adopting a framework for county borrowing consistent with the PFM law, and incorporating county borrowing in the national government's medium-term debt strategy. Close monitoring of contingent liabilities—arising mainly from

government guarantees to state-owned enterprises and PPPs—will be key to containing fiscal risks. The proposed reform of parastatal entities is also welcome.

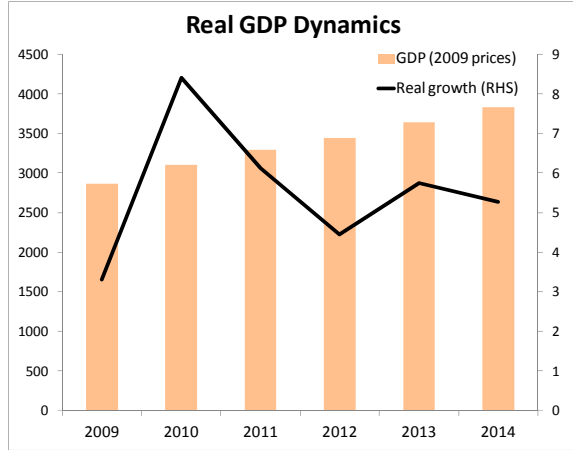
- **Monetary policy:** The impact on inflation of rapid credit growth and of the scaling up of infrastructure spending is currently being offset by the significant decline in energy prices from low-cost geothermal power generation coming on stream, and by the sharp drop in international oil prices. As the moderating impact of energy prices on inflation tapers off, the CBK should stand ready to take measures as needed to keep inflation and inflation expectations close to the middle of the target band. The adoption of a monetary policy consultation clause is a welcome step in this regard. The CBK should also use all tools available to align the interbank rate more closely with the policy rate to strengthen policy transmission and enhance policy credibility. This includes among others, improved high frequency liquidity forecasting, more frequent open market operations, and, in coordination with the National Treasury, complete implementation of the TSA and address the liquidity management problems experienced in recent months.
- **Financial stability:** The fast pace of domestic credit growth and the rapid expansion of Kenyan banks abroad warrant close oversight. In this context staff welcomes the authorities' efforts to review and strengthen implementation of the prudential guidelines to ensure that bank provisioning keeps pace with NPLs so as to maintain adequate bank capital buffers. Preparation of an action plan to strengthen the CBK's stress testing framework and methodology, and augment technical capacity is another promising step. The CBK is rightly pursuing efforts to assess the supervisory and regulatory framework of host supervisors to improve cross-border prudential oversight.
- **Data quality:** Improving the quality of economic statistics is critical to strengthening the assessment of vulnerabilities. Transitioning to emerging market status will make Kenya subject to more intense monitoring by market participants. This requires improving data availability and upgrading the quality and scope of statistical information, especially on the balance of payments, social indicators, and the labor market.

**40. Recent measures to strengthen security conditions and the ambitious energy investment program are reducing Kenya's vulnerability to security- and weather-related shocks.** Progress in expanding geo-thermal power generation is ahead of schedule. Staff welcomes the authorities' commitment for continued rapid progress in these areas, which are critical to reducing vulnerabilities, and lowering energy costs.

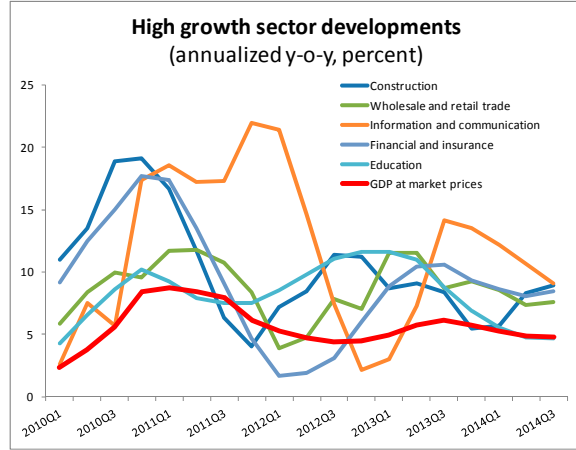
**41. Staff supports the authorities' request for a precautionary program supported by SBA-SCF arrangements.** The economic program supported by the SBA-SCF arrangements maintains sound macroeconomic policies, financial sector stability, and a sustainable public debt position. It makes use of fiscal space to scale up infrastructure spending to address bottlenecks and vulnerabilities, thereby enhancing growth prospects and accelerating poverty reduction. The policies envisaged by the authorities would also reduce vulnerabilities in the medium term. The authorities' strong performance under the previous ECF adds to confidence in Kenya's institutional and political ability to implement sound policies.

**Figure 1. Kenya: Real Sector**

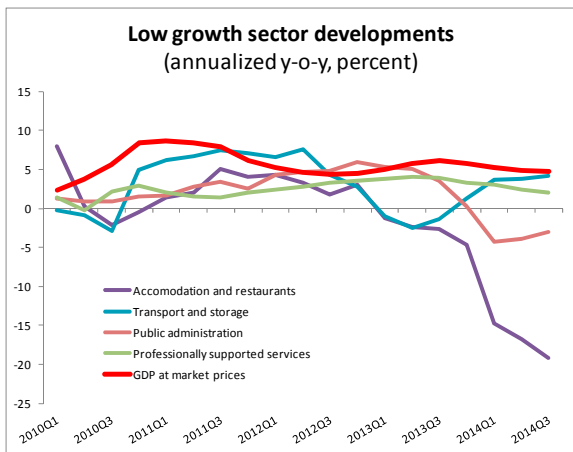
*GDP growth has been robust...*



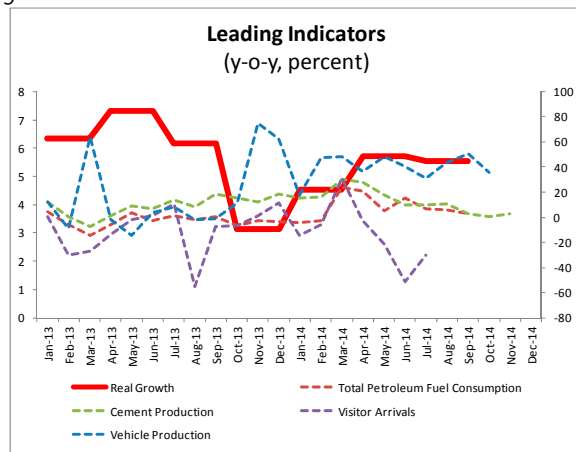
*... led by rapid expansion in construction and services...*



*... although tourism has slowed down.*



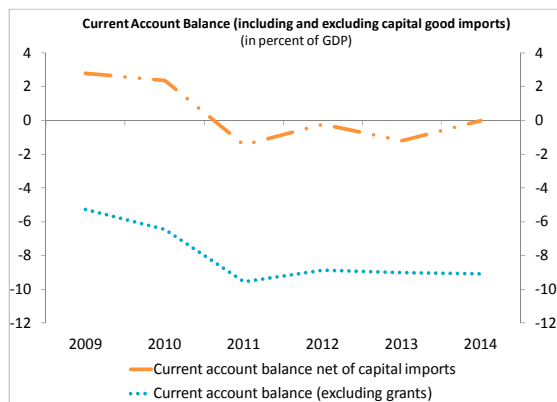
*High frequency indicators suggest continuous stable growth in 2015.*



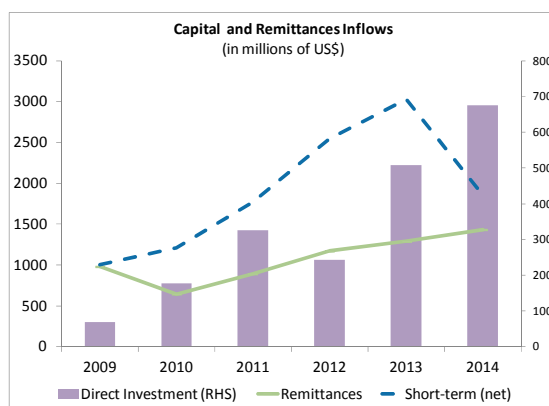
Sources: Kenyan authorities and IMF staff estimates.

**Figure 2. Kenya: External Sector**

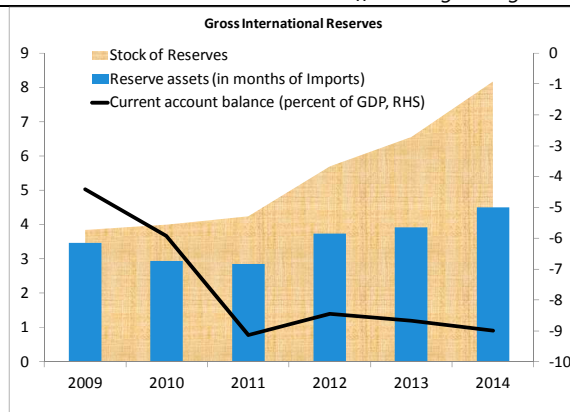
*Current account net of capital good imports has been close to balance...*



*...while remittances and FDI are picking up.*



*...and international reserve buffers are growing.*

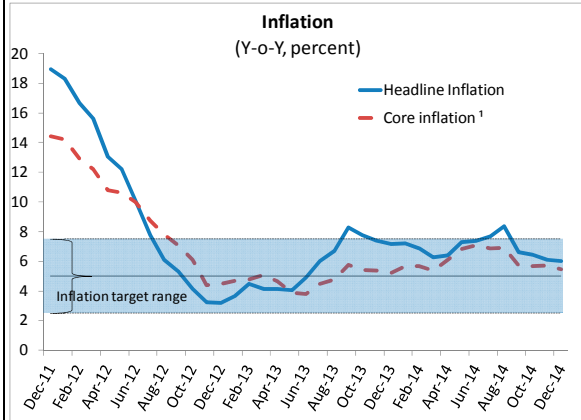


Sources: Kenyan authorities and IMF staff estimates.

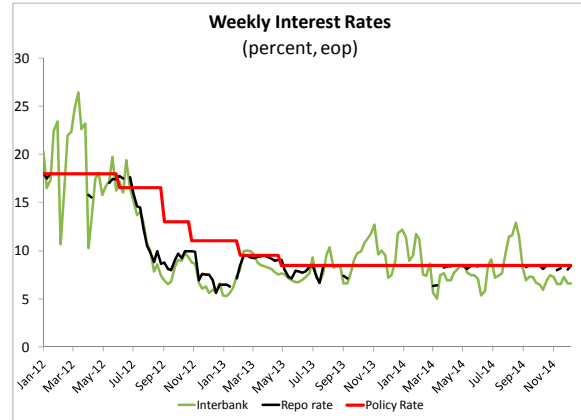


**Figure 3. Kenya: Monetary Sector**

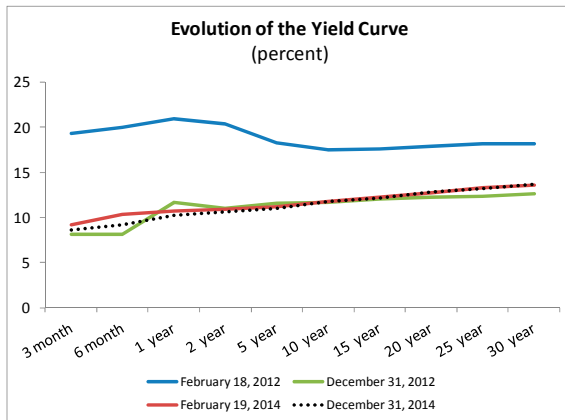
*Inflation has converged to authorities' target band...*



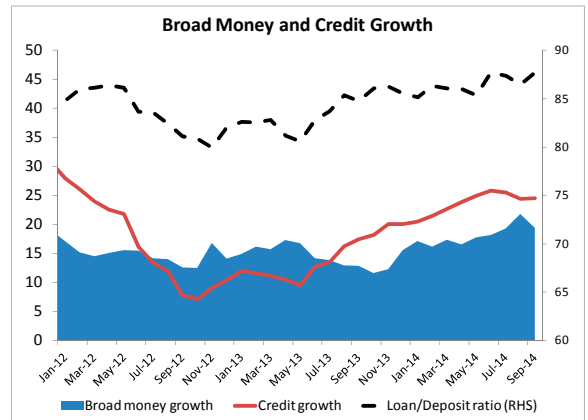
*... while interbank interest rate deviation from the policy rate persists.*



*Yield curve has been relatively stable...*



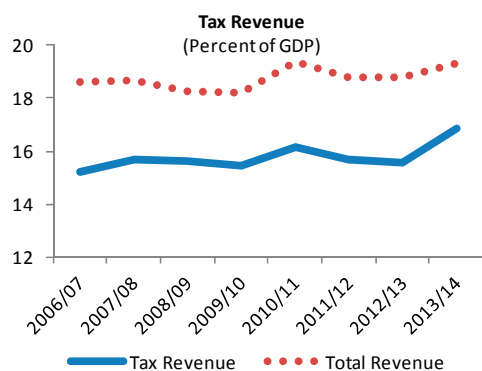
*... and credit growth has been strong.*



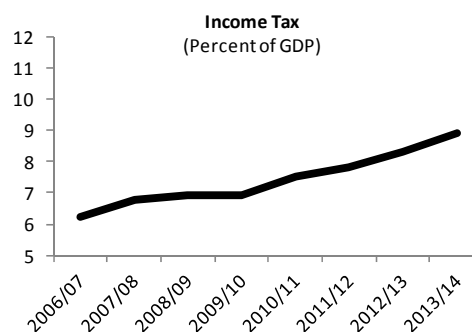
Sources: Bloomberg; Kenyan authorities and IMF staff estimates.

### Figure 4. Kenya: Fiscal Operations<sup>1</sup>

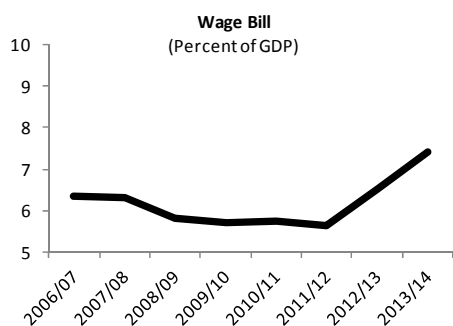
Tax collections have been increasing....



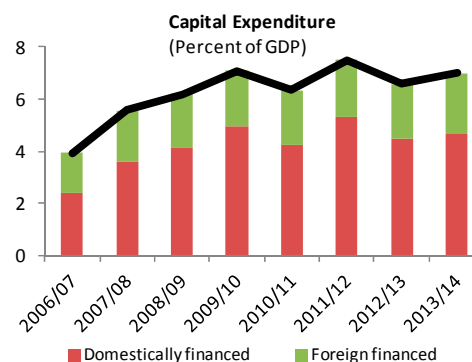
... reflecting strong yield from income taxes.



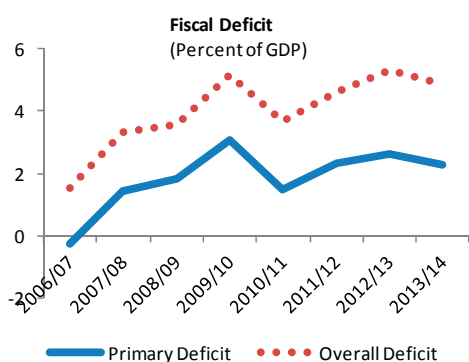
The wage bill increase reflects the devolution process...



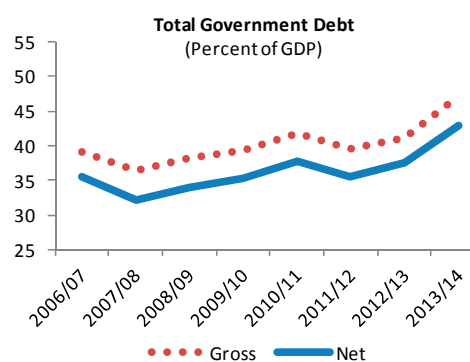
...while priority infrastructure spending is increasing.



The fiscal deficit has stabilized...



... and public debt remains within sustainable bounds.

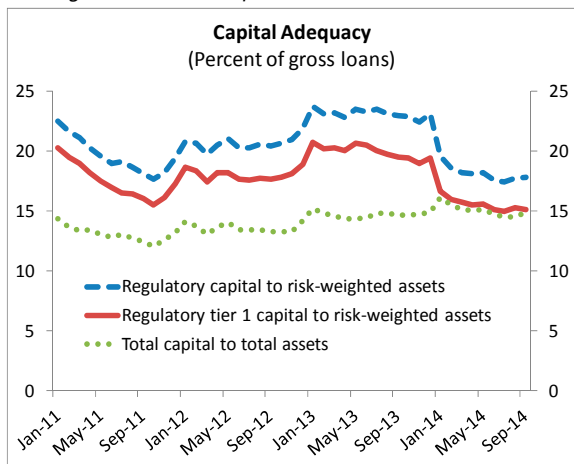


<sup>1</sup> For years 2012/13 and 2013/14, the charts are referring to general government.

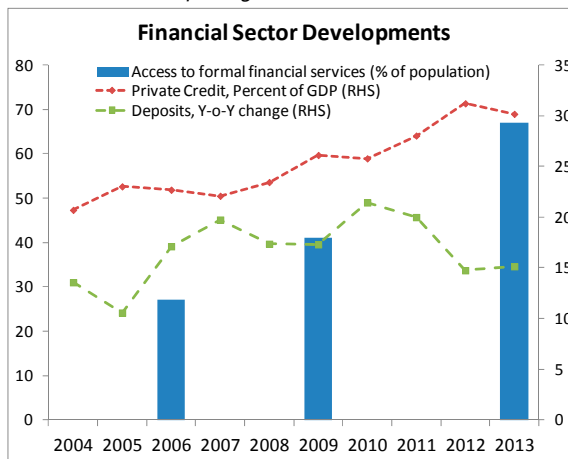
Sources: Kenyan authorities and IMF staff estimates.

**Figure 5. Kenya: Financial Sector**

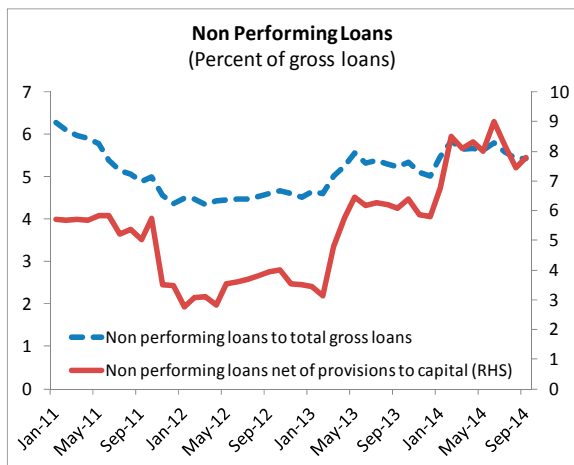
*Banking sector is well-capitalized...*



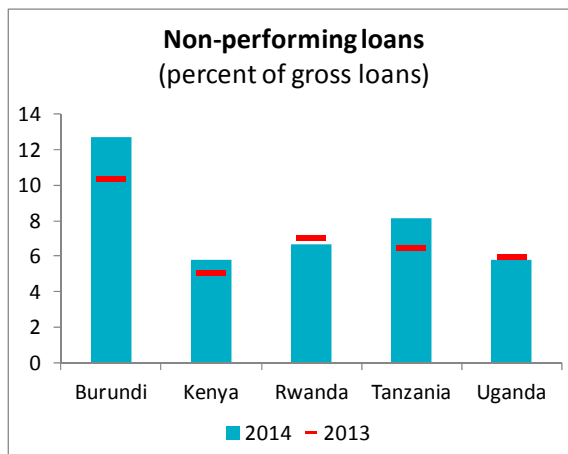
*.. and financial deepening continues.*



*NPLs net of provisions picked up since 2012...*



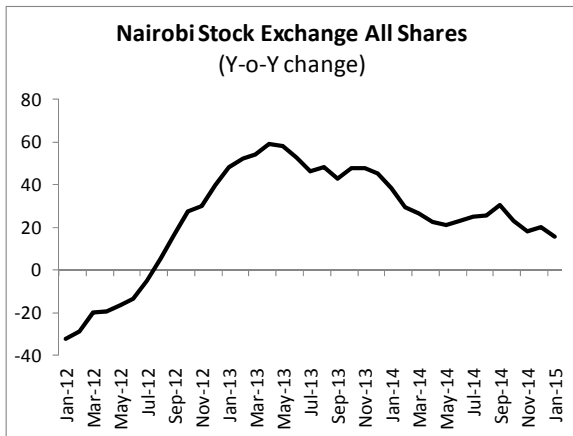
*... from a low base for NPLs.*



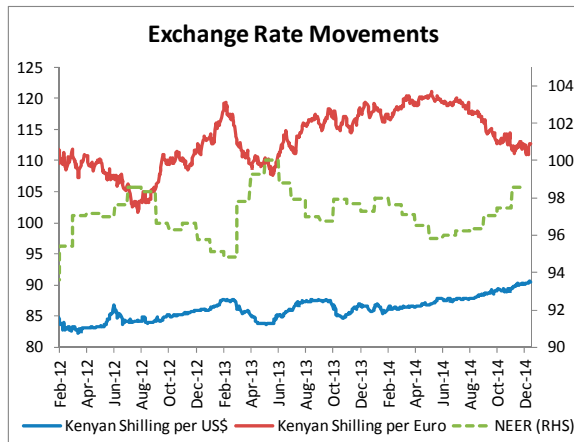
Sources: CBK and IMF staff estimates.

**Figure 6. Kenya: Financial Developments**

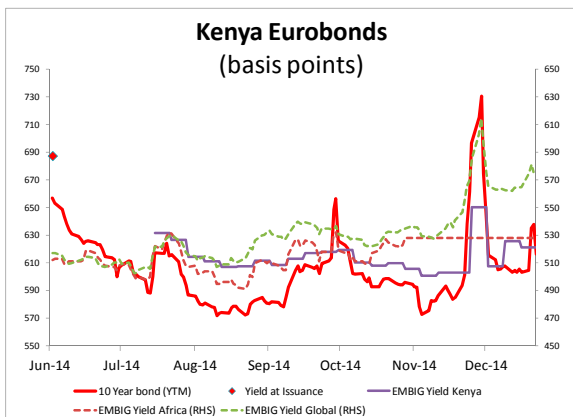
Capital markets activity is picking up....



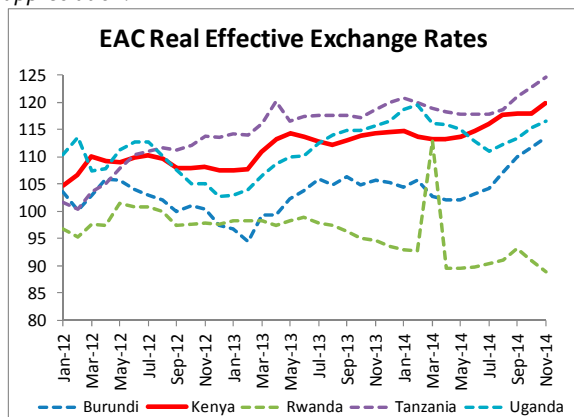
... with market-determined exchange rate relatively stable....



International investors show strong interest in Kenya.



Most EAC countries continue to experience modest real appreciation.



Sources: Bloomberg; IMF staff estimates.

Table 1a. Kenya: Selected Economic Indicators, 2012/13–2018/19

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prel.			Projections		
(Annual percentage change, unless otherwise indicated)							
Output, prices, and exchange rate							
Real GDP	5.1	5.5	6.1	7.0	7.1	7.0	7.0
GDP deflator	7.4	6.2	6.6	6.5	6.4	6.2	5.7
CPI (period average)	4.6	7.1	6.0	5.2	5.2	5.1	5.0
CPI (end of period)	4.9	7.4	5.1	5.3	5.2	5.1	5.0
Core inflation (period average) <sup>2</sup>	4.8	6.1	5.0	5.3	5.2	5.1	5.0
Exports volume	6.2	3.2	6.4	9.7	9.4	9.7	10.7
Imports volume	6.8	3.5	14.7	10.5	8.8	9.5	8.7
Terms of trade (deterioration, -)	-4.2	-7.5	21.6	6.6	-3.3	-1.4	-1.5
Exchange rate (Kenyan shilling/US\$)	84.6	87.2	.	.	.	.	.
Real effective exchange rate (depreciation, -)	3.6	1.9	.	.	.	.	.
Money and credit							
Broad money (M3)	14.2	18.2	13.9	19.8	14.5	16.2	15.5
Reserve money	11.7	12.6	11.3	14.9	13.8	15.0	14.5
Credit to non-government sector	12.7	25.8	17.7	15.6	14.7	14.6	14.6
Policy rate	8.5	8.5	.	.	.	.	.
M3/GDP (percent)	40.4	42.6	42.9	45.1	45.3	46.3	47.3
NPLs (percent of total gross loans)	5.3	5.8	.	.	.	.	.
(Percent of GDP, unless otherwise indicated)							
Central government budget							
Total revenue and grants	19.3	19.8	21.1	21.8	22.7	23.0	23.3
Tax revenues	15.6	16.9	17.9	18.7	19.5	19.9	20.1
Non-tax revenues	3.2	2.4	2.7	2.7	2.8	2.9	2.9
Grants	0.5	0.5	0.5	0.4	0.4	0.3	0.2
Expenditure	24.8	25.7	28.7	29.5	27.7	27.6	27.5
Current <sup>3</sup>	17.9	19.4	19.5	19.4	19.1	19.0	18.9
Capital <sup>3</sup>	6.6	6.3	8.9	9.9	8.4	8.3	8.4
Primary balance	-2.5	-3.5	-5.1	-5.1	-2.6	-2.1	-1.7
Excluding SGR related spending	-2.5	-3.5	-3.7	-3.0	-2.0	-1.7	-1.5
Overall balance	-5.5	-5.9	-7.6	-7.6	-5.0	-4.5	-4.1
Excluding SGR related spending	-5.5	-5.9	-6.2	-5.5	-4.4	-4.2	-4.0
Excluding grants	-6.0	-6.4	-8.1	-8.1	-5.3	-4.8	-4.4
Public debt <sup>4</sup>							
Public gross nominal debt	41.1	47.1	49.8	50.8	50.3	49.5	48.6
Public net nominal debt	37.5	43.0	46.4	48.8	48.2	47.4	46.5
of which: external public debt	17.8	21.6	23.2	25.2	25.3	25.5	25.9
Public gross debt, PV	.	41.1	44.9	45.6	45.1	43.8	42.4
Gross domestic debt	23.3	25.4	26.6	25.6	24.9	24.0	22.7
Investment and saving <sup>5</sup>							
Investment	20.7	21.2	24.7	26.1	25.1	25.4	25.6
General government	6.6	7.0	9.8	11.1	9.8	10.0	10.1
Nongovernment	14.1	14.2	15.0	15.1	15.2	15.4	15.5
Saving	12.3	12.6	16.7	18.9	18.2	18.2	18.4
General government	0.2	1.7	2.4	3.2	4.3	5.0	5.5
Nongovernment	12.1	10.9	14.3	15.7	13.9	13.3	13.0
External sector							
Exports (goods and services)	20.6	19.4	19.2	19.0	18.8	18.7	18.7
Imports (goods and services)	34.3	32.9	31.8	30.9	30.6	30.7	30.5
Current account balance (including grants)	-8.4	-8.6	-8.1	-7.3	-6.9	-7.2	-7.2
Gross international reserves							
In billions of US\$	6.1	8.6	7.8	8.7	9.5	10.6	12.0
In months of next year imports	3.8	5.1	4.3	4.3	4.2	4.3	4.4
Memorandum items:							
GDP at current market prices							
Billion of Kenyan shillings	4506.2	5050.3	5713.4	6512.3	7424.4	8438.2	9545.4
US\$ billion	52.8	58.1	63.9	70.9	79.2	88.2	97.8
GDP per capita (nominal US\$)	1279.1	1369.8	1468.4	1586.4	1726.6	1873.8	2024.4

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal years are from July 1 to June 30.<sup>2</sup> Excluding food and fuel.<sup>3</sup> From 2013/14, current spending includes total county transfers to counties and capital spending excludes capital spending of counties.<sup>4</sup> Excludes guaranteed debt and other contingent liabilities.<sup>5</sup> Reflects September 2014 national account rebasing.

**Table 1b. Kenya: Selected Economic Indicators, 2013–2019**

	2013	2014	2015	2016	2017	2018	2019
	Act.	Prel.	Projections				
(Annual percentage change, unless otherwise indicated)							
<b>Output, prices, and exchange rate</b>							
Real GDP	5.7	5.3	6.9	7.2	7.1	7.0	7.0
GDP deflator	5.7	6.7	6.6	6.5	6.4	6.0	5.5
CPI (period average)	5.7	6.9	5.2	5.3	5.1	5.1	5.0
CPI (end of period)	7.1	6.0	5.4	5.1	5.1	5.0	4.9
Core inflation (period average) <sup>2</sup>	4.8	6.1	5.0	5.3	5.2	5.1	5.0
Exports volume	3.2	3.3	9.4	10.0	8.9	10.4	11.0
Imports volume	3.0	8.0	14.4	10.1	7.8	11.5	5.9
Terms of trade (deterioration, -)	-6.6	3.1	24.4	-3.1	-1.8	-1.7	-1.5
Exchange rate (Kenyan shilling/US\$)	86.1	90.6	.	.	.	.	.
Real effective exchange rate (depreciation, -)	6.4	.	.	.	.	.	.
<b>Money and credit</b>							
Broad money (M3)	15.6	16.0	15.1	17.2	14.7	15.1	15.2
Reserve money	9.2	7.2	19.1	16.0	13.3	13.7	13.9
Credit to non-government sector	20.1	21.8	19.1	12.8	14.0	14.2	14.2
Policy rate	8.5	8.5	.	.	.	.	.
M3/GDP (percent)	42.0	43.3	43.8	45.0	45.3	46.0	46.9
NPLs (percent of total gross loans)	5.0	.	.	.	.	.	.
(Percent of GDP, unless otherwise indicated)							
<b>Central government budget</b>							
Total revenue and grants	19.5	20.5	21.5	22.2	22.8	23.2	23.3
Tax revenues	16.2	17.4	18.3	19.1	19.7	20.0	20.2
Non-tax revenues	2.8	2.6	2.7	2.8	2.8	2.9	2.9
Grants	0.5	0.5	0.5	0.4	0.3	0.3	0.2
Expenditure	25.2	27.2	29.1	28.6	27.6	27.5	27.1
Current <sup>3</sup>	18.7	19.5	19.5	19.2	19.1	19.0	18.9
Capital <sup>3</sup>	6.4	7.6	9.4	9.1	8.3	8.4	8.1
Primary balance	-3.0	-4.3	-5.1	-3.8	-2.3	-1.9	-1.4
Excluding SGR related spending	-3.0	-5.0	-3.7	-1.7	-1.8	-1.5	-1.2
Overall balance	-5.7	-6.7	-7.6	-6.3	-4.8	-4.3	-3.8
Excluding SGR related spending	-5.7	-7.4	-6.2	-4.2	-4.2	-4.0	-3.6
Excluding grants	-6.2	-7.2	-8.1	-6.7	-5.1	-4.6	-4.0
<b>Public debt <sup>4</sup></b>							
Public gross nominal debt	44.1	48.4	50.3	50.6	49.9	49.0	47.9
Public net nominal debt	40.2	44.7	47.6	48.5	47.8	47.0	45.9
of which: external public debt	19.7	22.4	24.2	25.3	25.4	25.7	26.0
Public gross debt, PV	38.0	44.2	45.5	45.7	44.6	43.1	41.6
Gross domestic debt	24.4	26.0	26.1	25.3	24.5	23.3	21.9
<b>Investment and saving <sup>5</sup></b>							
Investment	19.9	22.7	24.4	24.3	23.7	23.9	23.7
General government	6.4	7.7	9.5	9.1	8.4	8.4	8.1
Nongovernment	13.5	15.0	15.0	15.2	15.3	15.5	15.6
Saving	11.3	14.1	17.2	17.1	17.1	16.4	17.0
General government	0.4	0.5	1.5	2.6	3.4	3.9	4.2
Nongovernment	10.9	13.6	15.7	14.6	13.7	12.5	12.8
<b>External sector</b>							
Exports (goods and services)	19.4	19.3	19.1	19.0	18.7	18.7	18.8
Imports (goods and services)	-33.2	-32.6	-31.0	-30.8	-30.4	-31.0	-30.1
Current account balance (including grants)	-8.7	-8.6	-7.3	-7.1	-6.6	-7.5	-6.7
Gross international reserves							
In billions of US\$	6.6	8.0	8.4	9.2	10.1	11.0	12.5
In months of next year imports	4.0	4.6	4.4	4.4	4.2	4.3	4.4
<b>Memorandum items:</b>							
GDP at current market prices							
Billion of Kenyan shillings	4757.5	5343.1	6083.7	6941.0	7907.9	8968.4	10122.4
US\$ billion	55.2	60.9	66.9	74.8	83.6	92.9	102.7
GDP per capita (nominal US\$)	1321.6	1418.1	1518.8	1654.0	1799.1	1948.4	2100.4

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal years are from July 1 to June 30.<sup>2</sup> Excluding food and fuel.<sup>3</sup> From 2013/14, current spending includes total county transfers to counties and capital spending excludes capital spending of counties.<sup>4</sup> Excludes guaranteed debt and other contingent liabilities.<sup>5</sup> Reflects September 2014 national account rebasing.

**Table 2a. Kenya: Central Government Financial Operations, 2012/13–2018/19<sup>1</sup>**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
	Act.	Estim	Budget	Proj	Proj	Proj	Proj	
<i>(in billions of Kenyan Shillings, unless otherwise indicated)</i>								
<b>Revenues and grants</b>	<b>868.2</b>	<b>1,001.4</b>	<b>1,238.4</b>	<b>1,205.7</b>	<b>1,420.3</b>	<b>1,683.7</b>	<b>1,942.5</b>	<b>2,224.6</b>
<b>Revenue</b>	<b>847.2</b>	<b>974.4</b>	<b>1,180.5</b>	<b>1,175.3</b>	<b>1,392.6</b>	<b>1,656.1</b>	<b>1,920.2</b>	<b>2,201.5</b>
Tax revenue	701.2	851.8	1,006.5	1,021.3	1,216.4	1,446.2	1,677.8	1,922.0
Income tax	373.4	449.6	541.9	541.1	647.0	767.9	899.5	1,034.1
Import duty (net)	57.7	67.6	77.7	70.2	70.3	83.5	95.9	109.3
Excise duty	85.5	102.0	119.8	120.6	142.4	166.1	186.7	209.7
Value-added tax	184.6	232.6	267.1	289.4	356.7	428.6	495.7	568.8
Nontax revenue	146.1	122.6	174.0	154.0	176.1	209.9	242.4	279.5
Investment income	15.3	10.2	17.4	18.6	21.2	24.1	27.4	31.0
Other	63.0	57.0	62.5	64.5	73.5	91.8	104.4	118.0
Ministerial and Departmental Fees (AIA)	49.7	35.7	71.2	48.0	58.5	66.7	75.8	85.7
Railway Levy	0.0	19.7	22.9	22.9	23.0	27.3	34.8	44.7
<b>Grants</b>	<b>21.0</b>	<b>27.0</b>	<b>57.9</b>	<b>30.5</b>	<b>27.7</b>	<b>27.5</b>	<b>22.3</b>	<b>23.1</b>
Project grants	15.1	21.7	51.3	23.2	20.4	20.2	15.0	17.0
Program grants	5.8	4.7	0.0	6.1	6.1	6.1	6.1	6.1
<b>Expenditure and net lending</b>	<b>1,117.0</b>	<b>1,297.8</b>	<b>1,581.0</b>	<b>1,637.5</b>	<b>1,918.0</b>	<b>2,053.3</b>	<b>2,325.4</b>	<b>2,620.5</b>
<b>Recurrent expenditure</b>	<b>808.3</b>	<b>978.4</b>	<b>1,102.8</b>	<b>1,116.0</b>	<b>1,261.8</b>	<b>1,417.2</b>	<b>1,606.9</b>	<b>1,800.4</b>
Transfer to counties	0.0	169.4	226.7	229.3	245.5	262.9	296.5	334.4
Interest payments	121.2	132.0	147.4	141.8	164.0	180.1	207.2	234.0
Domestic interest	110.2	119.2	122.9	122.9	132.1	137.5	155.3	173.9
Foreign interest due	11.1	12.8	24.5	18.9	31.9	42.6	51.9	60.1
Wages and benefits (civil service)	274.4	281.2	302.4	303.3	330.2	365.1	403.4	455.5
Pensions, etc.	27.0	30.2	36.6	43.6	58.2	73.7	88.4	99.8
Defense and NSIS	91.2	93.8	90.7	114.0	132.0	150.0	172.0	192.0
Other	294.5	248.0	298.0	283.0	331.9	385.4	439.5	484.6
of which: Social Spending	32.2	--	53.3	53.3	68.3	84.4	106.9	121.4
<b>Development and net lending</b>	<b>298.9</b>	<b>319.3</b>	<b>478.5</b>	<b>513.1</b>	<b>645.2</b>	<b>624.2</b>	<b>705.7</b>	<b>807.4</b>
Domestically financed	201.8	198.5	289.2	288.0	333.2	381.8	438.1	508.0
Foreign financed	94.7	118.6	187.2	222.2	309.1	239.1	263.8	295.0
of which: SGR project	0.0	0.0	0.0	80.1	140.1	41.2	32.5	18.5
Net lending	2.4	2.2	2.1	2.9	3.0	3.4	3.8	4.3
<b>Overall balance (cash basis, including grants)</b>	<b>-232.4</b>	<b>-309.1</b>	<b>-342.6</b>	<b>-431.8</b>	<b>-497.8</b>	<b>-369.6</b>	<b>-382.9</b>	<b>-395.9</b>
<b>Overall balance excluding SGR related expenditure</b>	<b>-232.4</b>	<b>-309.1</b>	<b>-342.6</b>	<b>-351.7</b>	<b>-357.7</b>	<b>-328.5</b>	<b>-350.4</b>	<b>-377.5</b>
<b>Financing</b>	<b>232.4</b>	<b>309.1</b>	<b>342.6</b>	<b>431.8</b>	<b>497.8</b>	<b>369.6</b>	<b>382.9</b>	<b>395.9</b>
Net foreign financing	62.7	247.1	149.8	185.9	286.7	204.5	230.3	278.6
Disbursements	86.2	272.9	177.3	267.4	335.2	266.3	302.0	381.8
Project loans	79.6	96.9	135.9	119.0	148.6	177.7	216.3	259.6
Program loans	0.0	0.0	5.4	0.0	0.0	0.0	0.0	0.0
Commercial borrowing <sup>2</sup>	6.6	176.0	36.1	68.3	46.5	47.4	53.3	103.8
Standard Gauge Railway loan from China	0.0	0.0	0.0	80.1	140.1	41.2	32.5	18.5
Repayments due	-24.0	-25.8	-27.5	-81.5	-48.5	-61.8	-71.7	-103.3
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	169.8	62.0	190.8	245.9	211.1	165.2	152.6	117.4
<i>Memorandum items:</i>								
Nominal GDP	4,506.2	5,050.3	5,713.4	5,713.4	6,512.3	7,424.4	8,438.2	9,545.4
Primary balance incl. grants	(111.2)	(177.2)	(195.2)	(290.0)	(333.8)	(189.5)	(175.7)	(161.9)
Primary balance excluding SGR expenditure (incl. grants)	(111.2)	(177.2)	(195.2)	(209.9)	(193.7)	(148.4)	(143.2)	(143.4)
Total gross public debt, gross	1850.6	2377.6	2370.3	2846.3	3311.3	3731.7	4173.7	4635.7
of which: external debt <sup>3</sup>	800.0	1093.3	1153.3	1327.6	1641.5	1879.5	2148.2	2470.7
of which: domestic debt	1050.6	1284.3	1217.0	1518.7	1669.9	1852.2	2025.5	2165.0
Total net public debt <sup>4</sup>	1689.1	2172.1	--	2652.3	3177.3	3580.5	4001.9	4441.9
Government deposits	161.4	205.5	--	194.0	134.1	151.2	171.8	193.8

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.<sup>2</sup> Includes proceeds from (i) syndicated loans, (ii) US\$2.0bn Eurobond, and (iii) planned sovereign bonds.<sup>3</sup> External debt excludes guarantees<sup>4</sup> Total net debt in 2013/14 includes proceeds from US\$2.0bn Eurobond

**Table 2b. Kenya: Central Government Financial Operations, 2012/13–2018/19<sup>1</sup>**

	2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	Act.	Estim	Budget	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj
	<i>(in percent of GDP, unless otherwise indicated)</i>													
<b>Revenues and grants</b>	<b>19.3</b>	<b>19.8</b>	<b>21.7</b>	<b>21.1</b>	<b>21.8</b>	<b>22.7</b>	<b>23.0</b>	<b>23.3</b>						
<b>Revenue</b>	<b>18.8</b>	<b>19.3</b>	<b>20.7</b>	<b>20.6</b>	<b>21.4</b>	<b>22.3</b>	<b>22.8</b>	<b>23.1</b>						
Tax revenue	15.6	16.9	17.6	17.9	18.7	19.5	19.9	20.1						
Income tax	8.3	8.9	9.5	9.5	9.9	10.3	10.7	10.8						
Import duty (net)	1.3	1.3	1.4	1.2	1.1	1.1	1.1	1.1						
Excise duty	1.9	2.0	2.1	2.1	2.2	2.2	2.2	2.2						
Value-added tax	4.1	4.6	4.7	5.1	5.5	5.8	5.9	6.0						
Nontax revenue	3.2	2.4	3.0	2.7	2.7	2.8	2.9	2.9						
Investment income	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3						
Other	1.4	1.1	1.1	1.1	1.1	1.2	1.2	1.2						
Ministerial and Departmental Fees (AIA)	1.1	0.7	1.2	0.8	0.9	0.9	0.9	0.9						
Railway Levy	0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.5						
<b>Grants</b>	<b>0.5</b>	<b>0.5</b>	<b>1.0</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>						
Project grants	0.3	0.4	0.9	0.4	0.3	0.3	0.2	0.2						
Program grants	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1						
<b>Expenditure and net lending</b>	<b>24.8</b>	<b>25.7</b>	<b>27.7</b>	<b>28.7</b>	<b>29.5</b>	<b>27.7</b>	<b>27.6</b>	<b>27.5</b>						
<b>Recurrent expenditure</b>	<b>17.9</b>	<b>19.4</b>	<b>19.3</b>	<b>19.5</b>	<b>19.4</b>	<b>19.1</b>	<b>19.0</b>	<b>18.9</b>						
Transfer to counties	0.0	3.4	4.0	4.0	3.8	3.5	3.5	3.5						
Interest payments	2.7	2.6	2.6	2.5	2.5	2.4	2.5	2.5						
Domestic interest	2.4	2.4	2.2	2.2	2.0	1.9	1.8	1.8						
Foreign interest due	0.2	0.3	0.4	0.3	0.5	0.6	0.6	0.6						
Wages and benefits (civil service)	6.1	5.6	5.3	5.3	5.1	4.9	4.8	4.8						
Pensions, etc.	0.6	0.6	0.6	0.8	0.9	1.0	1.0	1.0						
Defense and NSIS	2.0	1.9	1.6	2.0	2.0	2.0	2.0	2.0						
Other	6.5	4.9	5.2	5.0	5.1	5.2	5.2	5.1						
of which: Social Spending	0.7	--	0.9	0.9	1.0	1.1	1.3	1.3						
<b>Development and net lending</b>	<b>6.6</b>	<b>6.3</b>	<b>8.4</b>	<b>9.0</b>	<b>9.9</b>	<b>8.4</b>	<b>8.4</b>	<b>8.5</b>						
Domestically financed	4.5	3.9	5.1	5.0	5.1	5.1	5.2	5.3						
Foreign financed	2.1	2.3	3.3	3.9	4.7	3.2	3.1	3.1						
of which: SGR project	0.0	0.0	0.0	1.4	2.2	0.6	0.4	0.2						
Net lending	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0						
<b>Overall balance (cash basis, including grants)</b>	<b>-5.2</b>	<b>-6.1</b>	<b>-6.0</b>	<b>-7.6</b>	<b>-7.6</b>	<b>-5.0</b>	<b>-4.5</b>	<b>-4.1</b>						
<b>Overall balance excluding SGR related expenditure</b>	<b>-5.2</b>	<b>-6.1</b>	<b>-6.0</b>	<b>-6.2</b>	<b>-5.5</b>	<b>-4.4</b>	<b>-4.2</b>	<b>-4.0</b>						
<b>Financing</b>	<b>5.2</b>	<b>6.1</b>	<b>6.0</b>	<b>7.6</b>	<b>7.6</b>	<b>5.0</b>	<b>4.5</b>	<b>4.1</b>						
Net foreign financing	1.4	4.9	2.6	3.3	4.4	2.8	2.7	2.9						
Disbursements	1.9	5.4	3.1	4.7	5.1	3.6	3.6	4.0						
Project loans	1.8	1.9	2.4	2.1	2.3	2.4	2.6	2.7						
Program loans	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0						
Commercial borrowing <sup>2</sup>	0.1	3.5	0.6	1.2	0.7	0.6	0.6	1.1						
Standard Gauge Railway loan from China	0.0	0.0	0.0	1.4	2.2	0.6	0.4	0.2						
Repayments due	-0.5	-0.5	-0.5	-1.4	-0.7	-0.8	-0.9	-1.1						
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Net domestic financing	3.8	1.2	3.3	4.3	3.2	2.2	1.8	1.2						
<b>Memorandum items:</b>														
Primary balance incl. grants (Central government)	-2.5	-3.5	-3.4	-5.1	-5.1	-2.6	-2.1	-1.7						
Primary balance excluding SGR expenditure (incl. grants)	-2.5	-3.5	-3.4	-3.7	-3.0	-2.0	-1.7	-1.5						
Total gross public debt, gross	41.1	47.1	41.5	49.8	50.8	50.3	49.5	48.6						
of which: external debt <sup>3</sup>	17.8	21.6	20.2	23.2	25.2	25.3	25.5	25.9						
of which: domestic debt	23.3	25.4	21.3	26.6	25.6	24.9	24.0	22.7						
Total gross public debt, PV	--	41.1	--	44.9	45.6	45.1	43.8	42.4						
Total net public debt <sup>4</sup>	37.5	43.0	--	46.4	48.8	48.2	47.4	46.5						
Government deposits (in months of domestically financed expenditure)	1.9	2.1	--	1.6	1.0	1.0	1.0	1.0						

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.<sup>2</sup> Includes proceeds from (i) syndicated loans, (ii) US\$2.0bn Eurobond, and (iii) planned sovereign bonds.<sup>3</sup> External debt excludes guarantees<sup>4</sup> Total net debt in 2013/14 includes proceeds from US\$2.0bn Eurobond



Table 2c. Kenya: General Government, 2012/13–2018/19<sup>1</sup>

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
	Act.	Budget	Estim	Proj	Proj	Proj	Proj	
<i>(in billions of Kenyan Shillings, unless otherwise indicated)</i>								
<b>Revenues and grants</b>	<b>887.9</b>	<b>1,174.0</b>	<b>1,027.7</b>	<b>1,235.2</b>	<b>1,454.3</b>	<b>1,723.3</b>	<b>1,990.4</b>	<b>2,279.5</b>
<b>Central Government revenues and grants</b>	<b>868.2</b>	<b>1,106.2</b>	<b>1,001.4</b>	<b>1,205.7</b>	<b>1,420.3</b>	<b>1,683.7</b>	<b>1,942.5</b>	<b>2,224.6</b>
Tax revenue	701.2	862.9	851.8	1,021.3	1,216.4	1,446.2	1,677.8	1,922.0
Nontax revenue	146.1	165.6	122.6	154.0	176.1	209.9	242.4	279.5
Grants	21.0	77.7	27.0	30.5	27.7	27.5	22.3	23.1
<b>County revenues and grants</b>	<b>19.7</b>	<b>67.8</b>	<b>26.3</b>	<b>29.5</b>	<b>34.0</b>	<b>39.7</b>	<b>47.9</b>	<b>54.9</b>
Local revenue (Property tax, Single Business Permits, etc...) <sup>2</sup>	19.7	67.8	26.3	29.5	34.0	39.7	47.9	54.9
<b>Expenditure and net lending</b>	<b>1,143.9</b>	<b>1,506.9</b>	<b>1,273.8</b>	<b>1,648.9</b>	<b>1,955.6</b>	<b>2,123.4</b>	<b>2,413.8</b>	<b>2,732.2</b>
<b>Recurrent expenditure</b>	<b>835.2</b>	<b>955.0</b>	<b>917.9</b>	<b>1,065.3</b>	<b>1,212.9</b>	<b>1,373.2</b>	<b>1,543.3</b>	<b>1,728.7</b>
Wages and salaries	294.3	373.9	373.2	410.1	452.6	501.6	547.0	617.5
of which: counties	19.9	110.9	92.0	106.8	122.3	136.5	143.6	162.0
Other	540.9	581.1	544.7	655.1	760.3	871.6	996.3	1111.2
of which: counties	25.1	53.5	40.8	71.8	74.2	82.5	89.3	100.7
<b>Development and net lending</b>	<b>298.9</b>	<b>541.9</b>	<b>355.9</b>	<b>575.2</b>	<b>731.7</b>	<b>738.2</b>	<b>857.7</b>	<b>990.8</b>
Domestically financed	201.8	298.9	235.1	350.1	419.7	495.8	590.1	691.4
of which: counties	0.0	102.8	36.6	62.1	86.5	114.0	152.0	183.4
Foreign financed	94.7	240.6	118.6	222.2	309.1	239.1	263.8	295.0
Net lending	2.4	2.4	2.2	2.9	3.0	3.4	3.8	4.3
Other (equalization, contingencies, etc...)	9.8	10.0	0.0	8.4	11.0	11.9	12.7	12.7
<b>Overall balance (cash basis, including grants)</b>	<b>-239.6</b>	<b>-332.9</b>	<b>-246.1</b>	<b>-413.7</b>	<b>-501.3</b>	<b>-400.1</b>	<b>-423.4</b>	<b>-452.7</b>
<b>Overall balance excluding SGR related expenditure</b>	<b>-239.6</b>	<b>-332.9</b>	<b>-246.1</b>	<b>-284.6</b>	<b>-435.2</b>	<b>-353.9</b>	<b>-383.4</b>	<b>-426.7</b>
<i>Memorandum items:</i>								
Nominal GDP	4,506.2	5,050.3	5,050.3	5,713.4	6,512.3	7,424.4	8,438.2	9,545.4
Central government balance (cash basis, including grants)	-232.4	-333.5	-309.1	-431.8	-497.8	-369.6	-382.9	-395.9
County government deposits	--	--	50.3	82.5	86.5	59.6	32.1	0.9
in months of county expenditures	--	--	3.6	4.4	3.8	2.2	1.0	0.0

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> 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.<sup>2</sup> Actual local revenues of counties for 2012/13 are obtained using a Local Government database that was provided by department of devolution and

Table 2d. Kenya: General Government, 2012/13–2018/19<sup>1</sup>

	2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	Act.	Budget	Estim	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj
	<i>(in percent of GDP, unless otherwise indicated)</i>													
<b>Revenues and grants</b>	<b>19.7</b>	<b>23.2</b>	<b>20.3</b>	<b>21.6</b>	<b>22.3</b>	<b>23.2</b>	<b>23.6</b>	<b>23.9</b>						
<b>Central Government revenues and grants</b>	<b>19.3</b>	<b>21.9</b>	<b>19.8</b>	<b>21.1</b>	<b>21.8</b>	<b>22.7</b>	<b>23.0</b>	<b>23.3</b>						
Tax revenue	15.6	17.1	16.9	17.9	18.7	19.5	19.9	20.1						
Nontax revenue	3.2	3.3	2.4	2.7	2.7	2.8	2.9	2.9						
Grants	0.5	1.5	0.5	0.5	0.4	0.4	0.3	0.2						
<b>County revenues and grants</b>	<b>0.4</b>	<b>1.3</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>						
Local revenue (Property tax, Single Business Permits, etc...) <sup>2</sup>	0.4	1.3	0.5	0.5	0.5	0.5	0.6	0.6						
<b>Expenditure and net lending</b>	<b>25.4</b>	<b>29.8</b>	<b>25.2</b>	<b>28.9</b>	<b>30.0</b>	<b>28.6</b>	<b>28.6</b>	<b>28.6</b>						
<b>Recurrent expenditure</b>	<b>18.5</b>	<b>18.9</b>	<b>18.2</b>	<b>18.6</b>	<b>18.6</b>	<b>18.5</b>	<b>18.3</b>	<b>18.1</b>						
Wages and salaries	6.5	7.4	7.4	7.2	6.9	6.8	6.5	6.5						
of which: counties	0.4	2.2	1.8	1.9	1.9	1.8	1.7	1.7						
Other	12.0	11.5	10.8	11.5	11.7	11.7	11.8	11.6						
of which: counties	0.6	1.1	0.8	1.3	1.1	1.1	1.1	1.1						
<b>Development and net lending</b>	<b>6.6</b>	<b>10.7</b>	<b>7.0</b>	<b>10.1</b>	<b>11.2</b>	<b>9.9</b>	<b>10.2</b>	<b>10.4</b>						
Domestically financed	4.5	5.9	4.7	6.1	6.4	6.7	7.0	7.2						
of which: counties	0.0	2.0	0.7	1.1	1.3	1.5	1.8	1.9						
Foreign financed	2.1	4.8	2.3	3.9	4.7	3.2	3.1	3.1						
Net lending	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0						
<b>Overall balance (cash basis, including grants)</b>	<b>(5.3)</b>	<b>(6.6)</b>	<b>(4.9)</b>	<b>(7.2)</b>	<b>(7.7)</b>	<b>(5.4)</b>	<b>(5.0)</b>	<b>(4.7)</b>						
<b>Overall balance excluding SGR related expenditure</b>	<b>(5.3)</b>	<b>(6.6)</b>	<b>(4.9)</b>	<b>(5.0)</b>	<b>(6.7)</b>	<b>(4.8)</b>	<b>(4.5)</b>	<b>(4.5)</b>						
<i>Memorandum items:</i>														
Central government balance (cash basis, including grants)	(5.2)	(6.6)	(6.1)	(7.6)	(7.6)	(5.0)	(4.5)	(4.1)						
County government deposits	--	--	50.3	82.5	86.5	59.6	32.1	0.9						
in months of county expenditures	--	--	3.6	4.4	3.8	2.2	1.0	0.0						

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> 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.

<sup>2</sup> Actual local revenues of counties for 2012/13 are obtained using a Local Government database that was provided by department of devolution and planning.

Table 3a. Kenya: Monetary Survey, June 2013-December 2015

	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
		Act.			Prel.			Proj.			
	(In billions of Kenyan shillings, unless otherwise indicated)										
<b>Central Bank of Kenya (CBK)</b>											
Net foreign assets	402.1	417.3	432.0	442.1	615.4	552.2	573.7	572.4	562.5	567.7	616.6
(in millions of US dollars) <sup>12</sup>	4,676	4,816	5,005	5,114	7,023	6,185	6,425	6,411	6,301	6,359	6,907
Net domestic assets	-114.7	-126.9	-111.2	-132.3	-291.7	-229.5	-229.8	-222.0	-202.2	-193.1	-207.0
Net domestic credit	-62.5	-14.4	-1.9	-6.0	-176.1	-79.6	-129.8	-132.0	-117.2	-113.1	-77.0
Government (net)	-20.9	-12.4	-11.9	12.3	-176.1	-47.0	-101.4	-77.7	-60.0	-50.0	-100.0
Commercial banks (net)	-41.7	-2.0	10.0	-18.4	0.0	-32.6	-30.9	-56.8	-59.7	-65.6	20.5
Other items (net)	-52.2	-112.6	-109.3	-126.2	-115.6	-149.9	-100.0	-90.0	-85.0	-80.0	-130.0
Reserve money	287.4	290.3	320.8	309.8	323.7	322.8	343.8	350.4	360.3	374.6	409.7
Currency outside banks	148.0	146.3	163.2	156.8	158.2	157.8	153.1	164.2	176.4	170.7	190.1
Bank reserves	139.5	144.0	157.6	153.1	165.6	164.9	190.7	186.2	184.0	203.9	219.5
<b>Banks</b>											
Net foreign assets	-40.9	-44.5	-44.7	-71.5	-86.0	-105.7	-114.7	-123.6	-132.5	-134.8	-137.0
(in millions of US dollars)	-475.7	-513.3	-518.1	-827.5	-981.4	-1,184.4	-1,284.4	-1,384.4	-1,484.4	-1,509.4	-1,534.4
Reserves	139.5	144.0	157.6	153.1	165.6	164.9	190.7	186.2	184.0	203.9	219.5
Credit to CBK	41.7	2.0	-10.0	18.4	0.0	32.6	30.9	56.8	59.7	65.6	-20.5
Net domestic assets	1,512.8	1,611.5	1,699.2	1,774.9	1,881.5	1,969.3	2,012.1	2,071.0	2,132.3	2,264.3	2,377.4
Net domestic credit	1,800.0	1,883.8	1,986.6	2,081.8	2,215.2	2,153.7	2,199.0	2,260.4	2,324.2	2,465.9	2,588.7
Government (net)	400.4	395.0	409.0	437.5	459.1	298.1	273.1	273.1	250.9	284.7	304.3
Other public sector	36.2	40.1	39.6	33.7	40.0	51.0	51.0	51.0	51.0	51.0	51.0
Private sector	1,363.4	1,448.8	1,537.9	1,610.5	1,716.1	1,804.6	1,874.9	1,936.3	2,022.3	2,130.2	2,233.4
Other items (net)	-287.2	-272.3	-287.4	-306.9	-333.7	-184.4	-186.9	-189.4	-191.9	-201.6	-211.3
Total deposits	1,653.0	1,713.1	1,802.1	1,874.8	1,961.1	2,061.1	2,119.1	2,190.3	2,243.4	2,399.1	2,439.4
<b>Monetary survey</b>											
Net foreign assets	361.2	372.8	387.3	370.5	529.4	446.5	459.0	448.8	430.0	433.0	479.6
(in millions of US dollars)	4,199.9	4,302.5	4,487.2	4,286.7	6,041.8	5,001.1	5,141.0	5,026.5	4,816.3	4,849.5	5,372.3
Net domestic assets	1,459.7	1,513.0	1,608.9	1,689.8	1,622.7	1,805.3	1,856.1	1,944.2	2,021.0	2,188.1	2,185.4
Net domestic credit	1,783.0	1,875.3	1,978.5	2,096.6	2,041.7	2,109.2	2,100.1	2,185.2	2,266.7	2,418.4	2,491.2
Government (net)	379.5	382.6	397.2	449.9	283.1	251.1	171.7	195.4	190.9	234.7	204.3
Other public sector	36.2	40.1	39.6	33.7	40.0	51.0	51.0	51.0	51.0	51.0	51.0
Private	1,367.2	1,452.6	1,541.7	1,613.0	1,718.6	1,807.1	1,877.4	1,938.8	2,024.8	2,132.7	2,235.9
Other items (net)	-323.3	-362.3	-369.6	-406.8	-419.0	-303.9	-244.0	-241.0	-245.7	-230.4	-305.8
M1	752.8	802.4	827.1	868.1	913.0	903.1	928.5	959.8	983.0	1,051.2	1,068.9
Money and quasi-money (M2)	1,547.9	1,617.2	1,671.6	1,758.8	1,838.1	1,893.3	1,946.6	2,012.1	2,060.8	2,203.8	2,240.9
M2 plus resident foreign currency deposits (M3)	1,820.9	1,885.8	1,996.2	2,060.3	2,152.1	2,251.8	2,315.1	2,393.0	2,450.9	2,621.0	2,665.1
M3 plus nonbank holdings of government debt (L)	2,278.3	2,405.8	2,523.2	2,592.5	2,718.3	3,020.1	3,105.0	3,209.5	3,287.2	3,515.4	3,574.4
<b>Memorandum items</b>											
	(Annual percent change unless otherwise specified)										
M2	15.6	14.7	13.8	19.0	18.8	17.1	16.5	14.4	12.1	16.4	15.1
M3	14.2	12.9	15.6	17.3	18.2	19.4	16.0	16.1	13.9	16.4	15.1
Deposits	14.0	12.3	15.1	17.9	18.6	20.3	17.6	16.8	14.4	16.4	15.1
Reserve money	11.7	12.1	9.2	7.7	12.6	11.2	7.2	13.1	11.3	16.1	19.1
Net domestic credit	14.9	15.7	16.2	19.7	14.5	12.5	6.1	4.2	11.0	14.7	18.6
Government (net)	27.4	15.0	7.7	15.1	-25.4	-34.4	-56.8	-56.6	-32.6	-6.5	19.0
Private	12.7	17.4	20.1	22.6	25.7	24.4	21.8	20.2	17.8	18.0	19.1
Net domestic assets of the banking sector	14.7	14.7	14.8	17.7	11.2	19.3	15.4	15.1	24.5	21.2	17.7
NDA growth (as percent of the base period M3)	9.5	9.4	9.7	11.6	7.2	12.1	9.8	9.8	14.7	12.7	10.6
Multiplier (Average M2/RM)	5.2	5.3	5.3	5.5	5.5	5.6	5.7	5.7	5.7	5.8	5.7
Multiplier (Average M3/RM)	6.2	6.2	6.3	6.4	6.5	6.6	6.8	6.8	6.8	6.8	6.8
Velocity (GDP/M3)	2.6	2.6	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4
Velocity (GDP/M2)	3.1	3.0	3.0	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Nominal GDP growth	12.9	12.4	11.8	11.9	12.1	12.2	12.3	12.7	13.1	13.5	13.9

Sources: Kenyan authorities and IMF staff estimates and projections

<sup>1</sup> For historical data, at implicit CBK exchange rate<sup>2</sup> 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, 2012/13-2018/19

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
	Act.	Prel.			Proj.		
(In billions of Kenyan shillings, unless otherwise indicated)							
<b>Central Bank of Kenya (CBK)</b>							
Net foreign assets	402.1	615.4	562.5	643.9	716.4	821.6	943.2
(in millions of US dollars) <sup>1 2</sup>	4,675.6	7,023.2	6,300.7	7,212.0	8,023.8	9,202	10,565
Net domestic assets	-114.7	-291.7	-202.2	-230.0	-245.3	-280.0	-323.1
Net domestic credit	-62.5	-176.1	-117.2	-130.0	-145.3	-180.0	-223.1
Government (net)	-20.9	-176.1	-60.0	-60.0	-100.0	-100.0	-100.0
Commercial banks (net)	-41.7	0.0	-59.7	-72.5	-47.8	-82.5	-125.6
Other items (net)	-52.2	-115.6	-85.0	-100.0	-100.0	-100.0	-100.0
Reserve money	287.4	323.7	360.3	413.9	471.1	541.5	620.1
Currency outside banks	148.0	158.2	176.4	172.1	194.2	219.7	248.4
Bank reserves	139.5	165.6	184.0	241.9	276.9	321.8	371.7
<b>Banks</b>							
Net foreign assets	-40.9	-86.0	-132.5	-141.5	-150.4	-159.3	-168.2
(in millions of US dollars)	-475.7	-981.4	-1,484.4	-1,584.4	-1,684.4	-1,784.4	-1,884.4
Reserves	139.5	165.6	184.0	241.9	276.9	321.8	371.7
Credit to CBK	41.7	0.0	59.7	72.5	47.8	82.5	125.6
Net domestic assets	1,512.8	1,881.5	2,132.3	2,514.4	2,902.0	3,330.4	3,800.5
Net domestic credit	1,800.0	2,215.2	2,324.2	2,745.1	3,171.5	3,638.7	4,147.7
Government (net)	400.4	459.1	250.9	356.5	439.1	515.4	574.2
Other public sector	36.2	40.0	51.0	51.0	51.0	51.0	51.0
Private sector	1,363.4	1,716.1	2,022.3	2,337.6	2,681.4	3,072.3	3,522.5
Other items (net)	-287.2	-333.7	-191.9	-230.7	-269.5	-308.3	-347.1
Total deposits	1,653.0	1,961.1	2,243.4	2,687.3	3,076.3	3,575.4	4,129.6
<b>Monetary survey</b>							
Net foreign assets	361.2	529.4	430.0	502.4	566.0	662.2	775.0
(in millions of US dollars)	4,199.9	6,041.8	4,816.3	5,627.6	6,339.4	7,417.7	8,680.3
Net domestic assets	1,459.7	1,622.7	2,021.0	2,433.4	2,794.9	3,244.0	3,736.7
Net domestic credit	1,783.0	2,041.7	2,266.7	2,687.6	3,074.0	3,541.2	4,050.2
Government (net)	379.5	283.1	190.9	296.5	339.1	415.4	474.2
Other public sector	36.2	40.0	51.0	51.0	51.0	51.0	51.0
Private	1,367.2	1,718.6	2,024.8	2,340.1	2,683.9	3,074.8	3,525.0
Other items (net)	-323.3	-419.0	-245.7	-254.2	-279.1	-297.3	-313.5
M1	752.8	913.0	983.0	1,177.5	1,348.0	1,566.7	1,809.5
Money and quasi-money (M2)	1,547.9	1,838.1	2,060.8	2,468.5	2,825.9	3,284.4	3,793.5
M2 plus resident foreign currency deposits (M3)	1,820.9	2,152.1	2,450.9	2,935.9	3,360.9	3,906.2	4,511.6
M3 plus nonbank holdings of government debt (L)	2,278.3	2,718.3	3,287.2	3,937.6	4,507.7	5,239.1	6,051.1
<b>Memorandum items</b>							
(annual percent change unless otherwise specified)							
M2	15.6	18.8	12.1	19.8	14.5	16.2	15.5
M3	14.2	18.2	13.9	19.8	14.5	16.2	15.5
Deposits	14.0	18.6	14.4	19.8	14.5	16.2	15.5
Reserve money	11.7	12.6	11.3	14.9	13.8	15.0	14.5
Net domestic credit	14.9	14.5	11.0	18.6	14.4	15.2	14.4
Government (net)	27.4	-25.4	-32.6	55.3	14.4	22.5	14.1
Private	12.7	25.7	17.8	15.6	14.7	14.6	14.6
Net domestic assets of the banking sector	14.7	11.2	24.5	20.4	14.9	16.1	15.2
NDA growth (as percent of the base period M3)	9.5	7.2	14.7	12.5	9.2	10.0	9.4
Multiplier (Average M3/RM)	6.2	6.5	6.8	6.9	6.9	7.0	7.1
Velocity (GDP/M3)	2.6	2.5	2.4	2.4	2.3	2.3	2.3
(as percent of GDP)							
M2	34.4	36.4	36.1	37.9	38.1	38.9	39.7
M3	40.4	42.6	42.9	45.1	45.3	46.3	47.3
Deposits	36.7	38.8	39.3	41.3	41.4	42.4	43.3
Reserve money	6.4	6.4	6.3	6.4	6.3	6.4	6.5
Net domestic credit	39.6	40.4	39.7	41.3	41.4	42.0	42.4
Government (net)	8.4	5.6	3.3	4.6	4.6	4.9	5.0
Private	30.3	34.0	35.4	35.9	36.1	36.4	36.9

Sources: Kenyan authorities and IMF staff estimates and projections

<sup>1</sup> For historical data, at implicit CBK exchange rate.<sup>2</sup> 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, 2013-2019

	2013	2014	2015	2016	2017	2018	2019
	Act.	Prel.			Proj.		
(In billions of Kenyan shillings, unless otherwise indicated)							
<b>Central Bank of Kenya (CBK)</b>							
Net foreign assets	432.0	573.7	616.6	691.5	775.2	858.7	995.4
(in millions of US dollars) <sup>1 2</sup>	5,005.3	6,425.4	6,906.7	7,745.9	8,682.5	9,618.1	11,149.5
Net domestic assets	-111.2	-229.8	-207.0	-216.5	-237.0	-246.9	-298.3
Net domestic credit	-1.9	-129.8	-77.0	-116.5	-137.0	-146.9	-198.3
Government (net)	-11.9	-101.4	-100.0	-80.0	-100.0	-100.0	-100.0
Commercial banks (net)	10.0	-30.9	20.5	-39.0	-39.5	-49.4	-100.8
Other items (net)	-109.3	-100.0	-130.0	-100.0	-100.0	-100.0	-100.0
Reserve money	320.8	343.8	409.7	475.0	538.2	611.8	697.1
Currency outside banks	163.2	153.1	190.1	217.7	243.0	271.9	305.7
Bank reserves	157.6	190.7	219.5	257.3	295.2	339.9	391.4
<b>Banks</b>							
Net foreign assets	-44.7	-114.7	-137.0	-145.9	-154.8	-163.8	-172.7
(in millions of US dollars)	-518.1	-1,284.4	-1,534.4	-1,634.4	-1,734.4	-1,834.4	-1,934.4
Reserves	157.6	190.7	219.5	257.3	295.2	339.9	391.4
Credit to CBK	-10.0	30.9	-20.5	39.0	39.5	49.4	100.8
Net domestic assets	1,699.2	2,012.1	2,377.4	2,708.4	3,100.5	3,551.0	4,029.3
Net domestic credit	1,986.6	2,199.0	2,588.7	2,958.5	3,389.4	3,878.7	4,395.8
Government (net)	409.0	273.1	304.3	388.1	467.2	548.6	600.3
Other public sector	39.6	51.0	51.0	51.0	51.0	51.0	51.0
Private sector	1,537.9	1,874.9	2,233.4	2,519.3	2,871.2	3,279.1	3,744.5
Other items (net)	-287.4	-186.9	-211.3	-250.1	-288.9	-327.7	-366.5
Total deposits	1,802.1	2,119.1	2,439.4	2,858.8	3,280.3	3,776.5	4,348.8
<b>Monetary survey</b>							
Net foreign assets	387.3	459.0	479.6	545.6	620.3	694.9	822.7
(in millions of US dollars)	4,487.2	5,141.0	5,372.3	6,111.5	6,948.1	7,783.7	9,215.1
Net domestic assets	1,608.9	1,856.1	2,185.4	2,577.6	2,963.5	3,431.0	3,928.4
Net domestic credit	1,978.5	2,100.1	2,491.2	2,881.0	3,291.9	3,781.2	4,298.3
Government (net)	397.2	171.7	204.3	308.1	367.2	448.6	500.3
Other public sector	39.6	51.0	51.0	51.0	51.0	51.0	51.0
Private	1,541.7	1,877.4	2,235.9	2,521.8	2,873.7	3,281.6	3,747.0
Other items (net)	-369.6	-244.0	-305.8	-303.4	-328.4	-350.2	-369.9
M1	827.1	928.5	1,068.9	1,252.7	1,437.4	1,654.8	1,905.6
Money and quasi-money (M2)	1,671.6	1,946.6	2,240.9	2,626.1	3,013.4	3,469.2	3,994.9
M2 plus resident foreign currency deposits	1,996.2	2,315.1	2,665.1	3,123.3	3,583.8	4,125.9	4,751.1
M3 plus nonbank holdings of government	2,523.2	3,105.0	3,574.4	4,189.0	4,806.7	5,533.7	6,372.3
<b>Memorandum items</b>							
(Annual percent change unless otherwise specified)							
M2	13.8	16.5	15.1	17.2	14.7	15.1	15.2
M3	15.6	16.0	15.1	17.2	14.7	15.1	15.2
Deposits	15.1	17.6	15.1	17.2	14.7	15.1	15.2
Reserve money	9.2	7.2	19.1	16.0	13.3	13.7	13.9
Net domestic credit	16.2	6.1	18.6	15.6	14.3	14.9	13.7
Government (net)	7.7	-56.8	19.0	50.8	19.2	22.2	11.5
Private	20.1	21.8	19.1	12.8	14.0	14.2	14.2
Net domestic assets of the banking sector	14.8	15.4	17.7	17.9	15.0	15.8	14.5
NDA growth (as percent of the base period)	9.7	9.8	10.6	11.0	9.2	9.7	9.0
Multiplier (Average M3/RM)	6.3	6.8	6.8	6.9	7.0	7.1	7.1
Velocity (GDP/M3)	2.6	2.4	2.4	2.3	2.3	2.3	2.2
(as percent of GDP)							
M2	35.1	36.4	36.8	37.8	38.1	38.7	39.5
M3	42.0	43.3	43.8	45.0	45.3	46.0	46.9
Deposits	37.9	39.7	40.1	41.2	41.5	42.1	43.0
Reserve money	6.7	6.4	6.7	6.8	6.8	6.8	6.9
Net domestic credit	41.6	39.3	40.9	41.5	41.6	42.2	42.5
Government (net)	8.3	3.2	3.4	4.4	4.6	5.0	4.9
Private	32.4	35.1	36.8	36.3	36.3	36.6	37.0

Sources: Kenyan authorities and IMF staff estimates and projections

<sup>1</sup> For historical data, at implicit CBK exchange rate.<sup>2</sup> 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, 2012/13-2018/19

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

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prel.			Projections		
<b>Current account</b>	<b>-4,488.5</b>	<b>-4,982.8</b>	<b>-5,056.3</b>	<b>-5,097.7</b>	<b>-5,417.8</b>	<b>-6,232.7</b>	<b>-6,927.7</b>
Exports, f.o.b.	6,018.2	5,930.7	6,243.2	6,861.0	7,606.8	8,411.2	9,374.9
Coffee	230.1	221.0	235.7	235.2	258.7	279.3	304.1
Tea	1,207.1	1,131.5	1,142.5	1,321.7	1,493.1	1,680.0	1,901.8
Horticulture	717.8	759.4	798.6	873.0	968.2	1,065.7	1,187.8
Imports, f.o.b.	-15,799.0	-16,662.8	-17,592.5	-18,856.1	-20,716.2	-23,071.8	-25,427.1
of which: SGR-related	0.0	-62.5	-250.0	-625.0	-625.0	-562.5	-375.0
Oil	-3,776.5	-3,794.0	-3,609.6	-3,349.7	-3,662.4	-4,167.2	-4,632.3
Other nongovernment	-11,610.6	-12,517.2	-13,852.1	-15,369.7	-16,905.6	-18,743.9	-20,619.4
Power generation-related machinery & aircraft	-809.4	-1,079.0	-1,211.7	-938.2	-888.6	-709.9	-578.1
Other capital imports <sup>1</sup>	-3,530.3	-3,845.5	-4,615.0	-5,586.0	-6,262.3	-7,297.3	-8,135.4
<b>Balance on goods</b>	<b>-9,780.8</b>	<b>-10,732.0</b>	<b>-11,349.4</b>	<b>-11,995.1</b>	<b>-13,109.4</b>	<b>-14,660.6</b>	<b>-16,052.2</b>
<b>Balance on services</b>	<b>2,558.7</b>	<b>2,908.0</b>	<b>3,304.4</b>	<b>3,568.5</b>	<b>3,802.2</b>	<b>4,083.3</b>	<b>4,514.6</b>
Foreign travel credit	907.7	851.1	844.3	926.8	1,040.0	1,142.0	1,243.7
<b>Balance on goods and services</b>	<b>-7,222.1</b>	<b>-7,824.0</b>	<b>-8,045.0</b>	<b>-8,426.6</b>	<b>-9,307.2</b>	<b>-10,577.3</b>	<b>-11,537.6</b>
Income (net)	-239.6	-352.7	-405.8	-372.9	-157.9	-56.4	-132.2
Current transfers (net)	2,973.1	3,193.9	3,394.5	3,701.9	4,047.3	4,401.0	4,742.0
Private (net)	2,765.5	3,066.1	3,343.5	3,660.5	4,007.2	4,362.3	4,718.4
of which: remittances	1,230.7	1,361.1	1,512.5	1,686.6	1,883.3	2,074.3	2,251.6
<b>Capital and financial account</b>	<b>5,086.1</b>	<b>7,399.2</b>	<b>4,417.7</b>	<b>6,072.6</b>	<b>6,339.0</b>	<b>7,537.9</b>	<b>8,387.7</b>
<b>Capital account (incl. capital transfers)</b>	<b>166.5</b>	<b>187.7</b>	<b>259.7</b>	<b>230.4</b>	<b>204.6</b>	<b>177.1</b>	<b>172.9</b>
<b>Financial account</b>	<b>4,919.6</b>	<b>7,211.4</b>	<b>4,158.0</b>	<b>5,842.2</b>	<b>6,134.4</b>	<b>7,360.8</b>	<b>8,214.8</b>
Net FDI	375.7	591.6	901.7	1,278.5	1,533.4	1,804.8	2,047.8
In Kenya	386.5	850.2	1,346.9	1,717.9	2,115.0	2,393.5	2,584.3
Abroad	-10.8	-258.6	-445.2	-439.3	-581.6	-588.7	-536.5
Net portfolio investment	105.8	2,217.9	922.4	730.6	938.8	1,159.0	1,467.1
Liabilities	145.3	2,266.3	977.2	785.4	997.0	1,216.4	1,524.9
Assets	-39.5	-48.4	-54.8	-54.8	-58.2	-57.4	-57.8
Net other investment	4,011.4	4,235.8	2,334.0	3,833.0	3,662.2	4,397.1	4,699.9
Official, medium and long-term	725.4	705.3	784.2	2,288.6	2,257.1	2,007.4	2,012.0
Inflows	1,005.5	1,119.3	1,847.4	2,714.9	2,768.0	2,590.0	2,553.3
Outflows	-280.1	-414.0	-1,063.2	-426.4	-510.9	-582.6	-541.3
Private, medium and long-term	495.8	1,383.5	560.2	911.9	617.6	1,319.8	1,353.7
Energy financing	86.1	108.4	116.4	124.6	133.7	125.0	115.6
Kenya Airways	15.8	204.1	161.2	-197.2	-283.1	-439.1	-570.2
Other	393.8	1,071.0	282.6	984.5	767.0	1,633.9	1,808.2
Short-term capital	2,790.2	2,147.0	989.7	632.5	787.5	1,069.9	1,334.2
Errors and omissions	426.7	166.1	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>597.6</b>	<b>2,416.4</b>	<b>-638.5</b>	<b>974.9</b>	<b>921.1</b>	<b>1,305.3</b>	<b>1,460.0</b>
<b>Financing items</b>	<b>-597.6</b>	<b>-2,416.4</b>	<b>638.5</b>	<b>-974.9</b>	<b>-921.1</b>	<b>-1,305.3</b>	<b>-1,460.0</b>
Reserve assets (gross)	-806.4	-2,465.5	714.9	-880.0	-780.5	-1,147.0	-1,331.3
Use of Fund credit and loans to the Fund (net)	203.1	49.1	-76.4	-94.9	-140.7	-158.3	-128.7
Disbursements	225.3	111.4	0.0	0.0	0.0	0.0	0.0
Repayments	-22.1	-62.3	-76.4	-94.9	-140.7	-158.3	-128.7
<b>Memorandum items:</b>							
Gross official reserves (end of period) <sup>2</sup>	6,089.0	8,554.5	7,839.6	8,719.6	9,500.0	10,647.0	11,978.3
(in months of following year's imports of goods and services)	3.8	5.1	4.3	4.3	4.2	4.3	4.4
(in months of 3-year-rolling average imports) <sup>3</sup>	4.4	5.7	4.9	5.1	5.1	5.2	5.3
(in percent of M3)	33.4	39.7	32.0	29.7	28.3	27.3	26.5
WEO oil price (APSP; US\$)	102.3	104.9	70.9	60.3	65.9	69.5	71.5
Change in the terms of trade (goods and services, percent)	-4.2	-7.5	21.6	6.6	-3.3	-1.4	-1.5

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

<sup>1</sup> Includes oil exploration-related machinery and equipment.<sup>2</sup> Reserves at end-2013/14 include proceeds of US\$2 billion from the eurobond issuance completed in late June 2014.<sup>3</sup> 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, 2012/13-2018/19**(in percent of GDP)  
(in percent of GDP, financial years)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prel.	Projections				
<b>Current account</b>	-8.5	-8.6	-7.9	-7.2	-6.8	-7.1	-7.1
Exports, f.o.b.	11.4	10.2	9.8	9.7	9.6	9.5	9.6
Coffee	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Tea	2.3	1.9	1.8	1.9	1.9	1.9	1.9
Horticulture	1.4	1.3	1.2	1.2	1.2	1.2	1.2
Imports, f.o.b.	-29.9	-28.7	-27.5	-26.6	-26.2	-26.2	-26.0
<i>of which:</i> SGR-related	0.0	-0.1	-0.4	-0.9	-0.8	-0.6	-0.4
Oil	-7.2	-6.5	-5.6	-4.7	-4.6	-4.7	-4.7
Other nongovernment	-22.0	-21.6	-21.7	-21.7	-21.3	-21.3	-21.1
Power generation-related machinery & aircraft	-1.5	-1.9	-1.9	-1.3	-1.1	-0.8	-0.6
Other capital imports <sup>1</sup>	-6.7	-6.6	-7.2	-7.9	-7.9	-8.3	-8.3
<b>Balance on goods</b>	-18.5	-18.5	-17.8	-16.9	-16.6	-16.6	-16.4
<b>Balance on services</b>	4.8	5.0	5.2	5.0	4.8	4.6	4.6
Foreign travel credit	1.7	1.5	1.3	1.3	1.3	1.3	1.3
<b>Balance on goods and services</b>	-13.7	-13.5	-12.6	-11.9	-11.8	-12.0	-11.8
Income (net)	-0.5	-0.6	-0.6	-0.5	-0.2	-0.1	-0.1
Current transfers (net)	5.6	5.5	5.3	5.2	5.1	5.0	4.8
Private (net)	5.2	5.3	5.2	5.2	5.1	4.9	4.8
<i>of which:</i> remittances	2.3	2.3	2.4	2.4	2.4	2.4	2.3
<b>Capital and financial account</b>	9.6	12.7	6.9	8.6	8.0	8.5	8.6
<b>Capital account (incl. capital transfers)</b>	0.3	0.3	0.4	0.3	0.3	0.2	0.2
<b>Financial account</b>	9.3	12.4	6.5	8.2	7.7	8.3	8.4
Net FDI	0.7	1.0	1.4	1.8	1.9	2.0	2.1
In Kenya	0.7	1.5	2.1	2.4	2.7	2.7	2.6
Abroad	0.0	-0.4	-0.7	-0.6	-0.7	-0.7	-0.5
Net portfolio investment	0.2	3.8	1.4	1.0	1.2	1.3	1.5
Liabilities	0.3	3.9	1.5	1.1	1.3	1.4	1.6
Assets	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net other investment	7.6	7.3	3.7	5.4	4.6	5.0	4.8
Official, medium and long-term	1.4	1.2	1.2	3.2	2.8	2.3	2.1
Inflows	1.9	1.9	2.9	3.8	3.5	2.9	2.6
Outflows	-0.5	-0.7	-1.7	-0.6	-0.6	-0.7	-0.6
Private, medium and long-term	0.9	2.4	0.9	1.3	0.8	1.5	1.4
Energy financing	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Kenya Airways	0.0	0.4	0.3	-0.3	-0.4	-0.5	-0.6
Other	0.7	1.8	0.4	1.4	1.0	1.9	1.8
Short-term capital	5.3	3.7	1.5	0.9	1.0	1.2	1.4
Errors and omissions	0.8	0.3	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	1.1	4.2	-1.0	1.4	1.2	1.5	1.5
<b>Financing items</b>	-1.1	-4.2	1.0	-1.4	-1.2	-1.5	-1.5
Reserve assets (gross)	-1.5	-4.2	1.1	-1.2	-1.0	-1.3	-1.4
Use of Fund credit and loans to the Fund (net)	0.4	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	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
<b>Memorandum items:</b>							
Gross official reserves (end of period)	11.5	14.7	12.3	12.3	12.0	12.1	12.3
Exports of goods and nonfactor services	20.6	19.4	19.2	19.0	18.8	18.7	18.7
Imports of goods and nonfactor services	-34.3	-32.9	-31.8	-30.9	-30.6	-30.7	-30.5

Sources: Kenyan authorities; and staff estimates and projections.

<sup>1</sup> Includes oil exploration-related machinery and equipment.

**Table 4c. Kenya: Balance of Payments, 2013-2019**

(millions of US Dollars)

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

	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Prel.			Projections			
<b>Current account</b>	<b>-4,255.0</b>	<b>-4,788.3</b>	<b>-5,243.5</b>	<b>-4,869.0</b>	<b>-5,326.4</b>	<b>-5,509.3</b>	<b>-6,956.0</b>	<b>-6,899.5</b>
Excluding official transfers	-4,474.6	-4,983.9	-5,303.4	-4,911.1	-5,367.1	-5,548.7	-6,994.1	-6,908.5
Exports, f.o.b.	6,180.9	5,819.4	6,006.0	6,480.3	7,241.7	7,971.9	8,850.5	9,899.3
Coffee	268.8	191.5	250.5	220.9	249.4	268.0	290.5	317.7
Tea	1,199.4	1,214.8	1,048.2	1,236.9	1,406.5	1,579.6	1,780.3	2,023.4
Horticulture	694.6	741.0	777.8	819.5	926.5	1,009.9	1,121.6	1,254.0
Imports, f.o.b	-15,535.5	-16,062.5	-17,263.0	-17,922.0	-19,790.3	-21,642.0	-24,501.6	-26,352.6
of which: SGR-related	0.0	0.0	-125.0	-375.0	-875.0	-375.0	-750.0	0.0
Oil	-3,892.4	-3,660.7	-3,927.3	-3,292.0	-3,407.4	-3,917.5	-4,416.8	-4,847.8
Other nongovernment	-11,392.5	-11,828.6	-13,205.7	-14,498.6	-16,240.8	-17,570.4	-19,917.4	-21,321.5
Power generation-related machinery & aircraft	-922.4	-696.3	-1,461.6	-961.8	-914.5	-862.7	-557.2	-599.0
Other capital imports <sup>1</sup>	-3,433.5	-3,627.0	-4,064.0	-5,166.1	-6,005.9	-6,518.7	-8,076.0	-8,194.8
<b>Balance on goods</b>	<b>-9,354.6</b>	<b>-10,243.1</b>	<b>-11,257.1</b>	<b>-11,441.7</b>	<b>-12,548.5</b>	<b>-13,670.2</b>	<b>-15,651.0</b>	<b>-16,453.3</b>
<b>Balance on services</b>	<b>2,460.4</b>	<b>2,657.0</b>	<b>3,159.0</b>	<b>3,449.8</b>	<b>3,687.1</b>	<b>3,917.2</b>	<b>4,249.4</b>	<b>4,779.8</b>
Foreign travel credit	934.8	880.6	821.5	867.0	986.6	1,093.4	1,190.6	1,296.7
<b>Balance on goods and services</b>	<b>-6,894.1</b>	<b>-7,586.1</b>	<b>-8,098.0</b>	<b>-7,991.9</b>	<b>-8,861.4</b>	<b>-9,752.9</b>	<b>-11,401.6</b>	<b>-11,673.5</b>
Income (net)	-170.6	-338.7	-396.8	-414.9	-330.9	15.0	-127.9	-136.5
Current transfers (net)	2,809.6	3,136.6	3,251.3	3,537.8	3,865.9	4,228.6	4,573.4	4,910.5
Private (net)	2,590.1	2,941.0	3,191.3	3,495.7	3,825.2	4,189.2	4,535.3	4,901.5
of which: remittances	1,170.9	1,290.6	1,431.6	1,593.5	1,779.7	1,987.0	2,161.6	2,341.6
Official (net)	219.6	195.6	59.9	42.1	40.7	39.4	38.1	9.0
<b>Capital and financial account</b>	<b>5,471.5</b>	<b>5,465.2</b>	<b>6,743.6</b>	<b>5,391.6</b>	<b>6,251.5</b>	<b>6,578.7</b>	<b>8,012.7</b>	<b>8,504.5</b>
<b>Capital account (incl. capital transfers)</b>	<b>235.3</b>	<b>97.7</b>	<b>277.7</b>	<b>241.7</b>	<b>219.2</b>	<b>190.0</b>	<b>164.2</b>	<b>181.6</b>
<b>Financial account</b>	<b>5,236.2</b>	<b>5,367.5</b>	<b>6,465.9</b>	<b>5,149.9</b>	<b>6,032.3</b>	<b>6,388.7</b>	<b>7,848.5</b>	<b>8,322.8</b>
Net FDI	242.5	508.8	674.5	1,128.8	1,428.2	1,638.5	1,971.0	2,124.5
In Kenya	258.6	514.4	1,186.0	1,507.7	1,928.0	2,301.9	2,485.0	2,683.6
Abroad	-16.1	-5.6	-511.5	-378.9	-499.8	-663.4	-514.0	-559.1
Net portfolio investment	-13.6	233.6	2,963.8	631.0	831.2	1,046.7	1,370.7	1,001.2
Liabilities	27.2	271.8	3,022.4	682.0	889.6	1,104.7	1,427.5	1,060.0
Assets	-40.8	-38.1	-58.6	-51.0	-58.5	-58.0	-56.8	-58.8
Net other investment	4,486.0	4,292.9	2,827.5	3,390.1	3,772.9	3,703.4	4,506.8	5,197.1
Official, medium and long-term	1,186.0	645.2	346.0	2,035.3	2,541.8	1,972.4	2,042.5	1,981.5
Inflows	1,474.4	934.1	1,483.7	2,416.2	3,013.6	2,522.4	2,657.6	2,448.9
Outflows	-288.4	-288.9	-1,137.6	-380.9	-471.8	-550.0	-615.2	-467.4
Private, medium and long-term	749.3	618.1	1,217.2	639.8	681.1	706.0	1,349.6	1,661.9
Energy financing	67.9	104.3	112.5	120.4	128.9	138.5	111.4	119.8
Kenya Airways	108.2	-76.6	484.8	-162.4	-232.0	-334.2	-543.9	-596.4
Other	573.2	590.4	619.9	681.9	784.1	901.8	1,782.1	2,138.5
Short-term capital	2,550.7	3,029.7	1,264.3	715.0	550.0	1,025.0	1,114.8	1,553.7
Errors and omissions	521.3	332.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>1,216.5</b>	<b>677.0</b>	<b>1,500.1</b>	<b>522.6</b>	<b>925.1</b>	<b>1,069.4</b>	<b>1,056.7</b>	<b>1,605.0</b>
<b>Financing items</b>	<b>-1,216.5</b>	<b>-677.0</b>	<b>-1,500.1</b>	<b>-522.6</b>	<b>-925.1</b>	<b>-1,069.4</b>	<b>-1,056.7</b>	<b>-1,605.0</b>
Reserve assets (gross)	-1,447.5	-858.3	-1,419.8	-450.0	-807.8	-905.3	-904.2	-1,500.1
Use of Fund credit and loans to the Fund (net)	225.3	178.5	-80.3	-72.6	-117.3	-164.0	-152.5	-105.0
Disbursements	225.3	222.7	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	-44.3	-80.3	-72.6	-117.3	-164.0	-152.5	-105.0
<b>Memorandum items:</b>								
Gross official reserves (end of period)	5,701.9	6,560.2	7,980.0	8,430.0	9,237.8	10,143.1	11,047.3	12,547.4
(in months of following year's imports of goods and services)	3.7	4.0	4.6	4.4	4.4	4.2	4.3	4.4
(in months of 3-year-rolling average imports) 2/	4.3	4.5	5.1	5.1	5.2	5.3	5.1	5.3
(in percent of M3)	33.0	32.9	34.5	31.6	29.6	28.3	26.8	26.4
WEO oil price (APSP; US\$)	105.0	104.1	96.3	56.7	63.9	68.0	70.9	72.1
Change in the terms of trade (goods and services, percent)	-7.7	-6.6	3.1	24.4	-3.1	-1.8	-1.7	-1.5

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> Includes oil exploration-related machinery and equipment.<sup>2</sup> 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 2013-2019

(percent of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Prel.			Projections			
<b>Current account</b>	-8.5	-8.7	-8.6	-7.3	-7.1	-6.6	-7.5	-6.7
Excluding official transfers	-8.9	-9.0	-8.7	-7.3	-7.2	-6.6	-7.5	-6.7
Exports, f.o.b.	12.3	10.5	9.9	9.7	9.7	9.5	9.5	9.6
Coffee	0.5	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Tea	2.4	2.2	1.7	1.8	1.9	1.9	1.9	2.0
Horticulture	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2
Imports, f.o.b.	-30.9	-29.1	-28.4	-26.8	-26.4	-25.9	-26.4	-25.7
of which: SGR-related	0.0	0.0	-0.2	-0.6	-1.2	-0.4	-0.8	0.0
Oil	-7.7	-6.6	-6.5	-4.9	-4.6	-4.7	-4.8	-4.7
Other nongovernment	-22.6	-21.4	-21.7	-21.7	-21.7	-21.0	-21.5	-20.8
Power generation-related machinery & aircraft	-1.8	-1.3	-2.4	-1.4	-1.2	-1.0	-0.6	-0.6
Other capital imports <sup>1</sup>	-6.8	-6.6	-6.7	-7.7	-8.0	-7.8	-8.7	-8.0
<b>Balance on goods</b>	-18.6	-18.5	-18.5	-17.1	-16.8	-16.4	-16.9	-16.0
<b>Balance on services</b>	4.9	4.8	5.2	5.2	4.9	4.7	4.6	4.7
Transportation	4.2	4.0	3.8	3.8	3.9	3.9	4.1	4.2
Foreign travel credit	1.9	1.6	1.3	1.3	1.3	1.3	1.3	1.3
<b>Balance on goods and services</b>	-13.7	-13.7	-13.3	-11.9	-11.8	-11.7	-12.3	-11.4
Income (net)	-0.3	-0.6	-0.7	-0.6	-0.4	0.0	-0.1	-0.1
Current transfers (net)	5.6	5.7	5.3	5.3	5.2	5.1	4.9	4.8
Private (net)	5.1	5.3	5.2	5.2	5.1	5.0	4.9	4.8
of which: remittances	2.3	2.3	2.4	2.4	2.4	2.4	2.3	2.3
Official (net)	0.4	0.4	0.1	0.1	0.1	0.0	0.0	0.0
<b>Capital and financial account</b>	10.9	9.9	11.1	8.1	8.4	7.9	8.6	8.3
<b>Capital account (incl. capital transfers)</b>	0.5	0.2	0.5	0.4	0.3	0.2	0.2	0.2
Of which: capital transfers	0.5	0.2	0.5	0.4	0.3	0.2	0.2	0.2
<b>Financial account</b>	10.4	9.7	10.6	7.7	8.1	7.6	8.5	8.1
Net FDI	0.5	0.9	1.1	1.7	1.9	2.0	2.1	2.1
In Kenya	0.5	0.9	1.9	2.3	2.6	2.8	2.7	2.6
Abroad	0.0	0.0	-0.8	-0.6	-0.7	-0.8	-0.6	-0.5
Net portfolio investment	0.0	0.4	4.9	0.9	1.1	1.3	1.5	1.0
Liabilities	0.1	0.5	5.0	1.0	1.2	1.3	1.5	1.0
Assets	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net other investment	8.9	7.8	4.6	5.1	5.0	4.4	4.9	5.1
Official, medium and long-term	2.4	1.2	0.6	3.0	3.4	2.4	2.2	1.9
Inflows	2.9	1.7	2.4	3.6	4.0	3.0	2.9	2.4
Outflows	-0.6	-0.5	-1.9	-0.6	-0.6	-0.7	-0.7	-0.5
Private, medium and long-term	1.5	1.1	2.0	1.0	0.9	0.8	1.5	1.6
Energy financing	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Kenya Airways	0.2	-0.1	0.8	-0.2	-0.3	-0.4	-0.6	-0.6
Other	1.1	1.1	1.0	1.0	1.0	1.1	1.9	2.1
Short-term capital	5.1	5.5	2.1	1.1	0.7	1.2	1.2	1.5
Errors and omissions	1.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	2.4	1.2	2.5	0.8	1.2	1.3	1.1	1.6
<b>Financing items</b>	-2.4	-1.2	-2.5	-0.8	-1.2	-1.3	-1.1	-1.6
Reserve assets (gross)	-2.9	-1.6	-2.3	-0.7	-1.1	-1.1	-1.0	-1.5
Use of Fund credit and loans to the Fund (net)	0.4	0.3	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1
<b>Memorandum items:</b>								
Gross official reserves (end of period)	11.3	11.9	13.1	12.6	12.3	12.1	11.9	12.2
Exports of goods and nonfactor services	21.9	19.4	19.3	19.1	19.0	18.7	18.7	18.8
Imports of goods and nonfactor services	-35.6	-33.2	-32.6	-31.0	-30.8	-30.4	-31.0	-30.1

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

<sup>1</sup> Includes oil exploration-related machinery and equipment.

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

	Dec-10	Dec-11	Dec-12	Jun-13	Sep-13	Dec-13	Jun-14	Sep-14
	(Percent)							
<b>Capital adequacy</b>								
Regulatory capital to risk-weighted assets	20.8	19.4	21.9	23.3	22.9	23.2	17.6	17.8
Regulatory tier 1 capital to risk-weighted assets	18.7	17.3	18.9	20.5	19.5	19.4	15.1	15.1
Total capital to total assets	15.6	15.5	16.3	17.1	17.0	17.1	17.3	17.2
<b>Asset quality</b>								
Non performing loans to total gross loans	6.2	4.4	4.5	5.3	5.2	5.0	5.8	5.4
Bank provisions to NPLs	75.3	82.2	80.9	71.0	70.8	70.7	62.0	65.5
Non performing loans net of provisions to capital	6.4	3.5	3.5	6.2	6.1	5.8	9.0	7.8
Earning assets to total assets	88.8	87.8	87.4	88.7	88.8	88.9	88.6	89.4
<b>Earning and profitability</b>								
Return on assets (ROA)	3.7	3.3	3.8	3.9	3.7	3.6	3.7	3.6
Return on equity (ROE)	30.7	32.2	34.2	31.2	30.0	28.9	30.9	28.5
Interest margin to gross income	34.7	38.6	32.7	36.6	37.5	37.2	35.9	36.1
Non interest expenses to gross income	48.2	44.6	37.8	40.7	42.1	41.7	39.9	40.6
<b>Liquidity</b>								
Liquid assets to total assets	38.4	33.3	35.2	35.3	34.5	34.3	32.3	31.3
Liquid assets to short-term liabilities	44.5	37.0	41.9	42.7	40.4	38.6	38.7	37.4
liquid assets to total deposits	51.0	43.8	46.8	47.5	47.0	47.0	44.4	42.5
Total loans to total deposits	72.5	77.4	76.9	77.8	79.1	80.4	82.6	84.4
<b>Sensitivity to market risk</b>								
Net open position in foreign exchange to capital	4.3	3.3	2.6	2.7	3.0	2.2	2.9	2.4
Interest bearing assets to interest bearing liabilities	117.8	115.4	116.2	119.3	120.7	121.6	121.7	121.6
FX currency denominated assets to total assets	10.6	11.8	13.2	12.1	13.2	13.7	15.0	15.8
FX currency denominated liabilities to total liabilities	17.1	21.5	20.9	21.3	21.1	22.9	22.0	23.3
Spread between lending and deposit rate	9.3	8.4	10.3	9.4	9.5	8.9	8.5	8.1

Source: Central Bank of Kenya.

**Table 6. Kenya: External Financing Needs Arising From Potential Shocks**  
(in billions of US dollars, relative to baseline, unless otherwise indicated)

	2015	2016	2017	2015–17
Simulated impact	-2.4	-1.4	-0.7	-4.6
Weather-related <sup>1</sup>	-1.3	-0.5	-0.2	-1.9
Security-related <sup>2</sup>	-1.2	-0.9	-0.6	-2.6
Excluding IMF and partner financing				
Level of reserves (2014: 8.0) <sup>3</sup>	6.2	6.2	7.0	
In months of prospective imports (2014: 4.6)	3.3	3.0	3.0	
Reserve loss (relative to baseline)	1.7	1.2	0.5	3.4
Remaining financing gap	0.7	0.2	0.2	1.1
Development partners (uncertain)	0.0	0.2	0.2	0.4
IMF program (US\$ billion)	0.7	0.0	0.0	0.7
In percent of quota	180	0	0	180
Level of reserves with financing (2014: 8.0)	6.9	7.1	8.1	
In months of prospective imports (2014: 4.6)	3.7	3.5	3.4	

<sup>1</sup> Comparable to impact of 2010 drought (see Annex I).

<sup>2</sup> Channels include travel claims, FDI, portfolio investment, and short-term flows.

FDI impact based on rollover rate of 89 percent for FDI (median) and adjustments to FDI net inflows to reflect results of Foreign Investment Survey 2009-11. Short-term flow impact based on rollover rate of 89 percent for private short-term (25th percentile), applied to short-term capital share of GDP for 2012-14.

<sup>3</sup> Also reflects impact of depreciation and import compression.

**Table 7. Kenya: Schedule of Reviews and Purchases**

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

Table 8. Kenya: Indicators of Fund Credit

	Projections								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Fund obligations based on existing credit</b>									
(In millions of SDRs)									
Principal	47.1	48.7	85.8	103.3	111.3	97.7	91.2	50.3	21.6
Charges and interest <sup>1</sup>	0.1	0.1	1.3	1.1	0.9	0.7	0.4	0.3	0.2
<b>Obligations to the Fund from existing and prospective credit<sup>2</sup></b>									
(In millions of SDRs)									
Principal	50.4	52.5	90.7	264.4	316.0	156.3	118.8	77.7	38.0
Stand-by Arrangements (SBA)	0.0	0.0	0.0	145.9	176.4	30.5	0.0	0.0	0.0
ESF Rapid Access Component (RAC)	27.1	27.1	27.1	27.1	13.6	0.0	0.0	0.0	0.0
ECF Arrangements	20.0	21.5	58.6	76.1	97.7	97.7	91.2	50.3	21.6
SCF Arrangements	0.0	0.0	0.0	10.9	25.8	27.1	27.1	27.1	16.3
Charges and interest <sup>1</sup>	3.2	3.8	5.0	4.4	2.6	0.9	0.4	0.3	0.2
<b>Obligations to the Fund from existing and prospective credit<sup>1</sup></b>									
In millions of U.S. dollars									
In percent of gross international reserves	1.1	1.1	1.6	4.2	4.6	2.1	1.4	0.8	0.4
In percent of exports of goods and services	0.6	0.6	0.9	2.2	2.4	1.1	0.7	0.4	0.2
In percent of GDP	0.1	0.1	0.2	0.4	0.5	0.2	0.1	0.1	0.0
In percent of quota	18.6	19.3	33.4	97.4	116.4	57.6	43.8	28.6	14.0
<b>Outstanding Fund credit based on existing drawings (end-of-period, all PRGT)</b>									
In millions of SDRs									
In percent of quota	609.8	561.1	475.4	372.1	260.8	163.1	71.9	21.6	0.0
	224.7	206.7	175.2	137.1	96.1	60.1	26.5	8.0	0.0
<b>Outstanding Fund credit based on existing and prospective drawings (end-of-period)<sup>2</sup></b>									
In millions of SDRs									
In millions of U.S. dollars	1,098.3	1,049.6	963.9	703.9	390.4	235.0	116.7	39.2	1.4
In percent of gross international reserves	23.3	21.4	17.3	11.2	5.6	3.1	1.4	0.4	0.0
In percent of exports of goods and services	13.4	11.2	9.2	6.0	3.0	1.6	0.7	0.2	0.0
In percent of GDP	2.6	2.3	1.9	1.2	0.6	0.3	0.1	0.0	0.0
In percent of quota	404.7	386.7	355.2	259.4	143.9	86.6	43.0	14.5	0.5
General Resources Account	130.0	130.0	130.0	76.2	11.2	0.0	0.0	0.0	0.0
Poverty Reduction and Growth Trust	274.7	256.7	225.2	183.1	132.6	86.6	43.0	14.5	0.5
<b>Memorandum items:</b>									
Nominal GDP (in billions of U.S. dollars)	62.6	68.0	75.3	85.9	97.9	110.0	121.3	133.5	146.7
Exports of goods and services (in billions of U.S. dollars)	12.0	13.6	15.3	17.2	19.1	21.0	23.1	25.5	28.2
Gross international reserves (in billions of U.S. dollars)	6.9	7.1	8.1	9.1	10.1	11.1	12.2	13.4	14.7
Quota (in millions of SDRs)	271.4	271.4	271.4	271.4	271.4	271.4	271.4	271.4	271.4

Sources: IMF staff estimates; and projections.

<sup>1</sup> PRGT interest is waived through end-2016.<sup>2</sup> Assumes access of 180 percent of quota during 2015–16 and semi-annual disbursements.

Table 9. Kenya: External Financing Requirements and Sources, 2012/13–2018/19

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Est.			Projections		
(In millions of U.S. dollars)							
Total requirements	-5,028.5	-7,306.9	-7,554.6	-7,690.1	-8,143.5	-9,494.3	-9,777.2
Current account deficit	-4,488.5	-4,982.8	-5,056.3	-5,097.7	-5,417.8	-6,232.7	-6,927.7
Capital outflows: repayments of MLT loans	-540.0	-2,324.1	-2,498.3	-2,592.4	-2,725.7	-3,261.7	-3,349.4
Capital outflows: portfolio investment (sovereign bond)	0.0	0.0	0.0	0.0	0.0	0.0	500.0
Total sources	5,028.5	7,306.9	7,554.6	7,690.1	8,143.5	9,494.3	9,777.2
Capital inflows	5,631.8	9,723.3	6,916.0	8,665.0	9,064.7	10,799.6	11,237.2
Public sector	1,172.0	3,307.0	2,857.1	3,445.4	3,472.6	3,267.1	4,384.5
Project grants	166.5	187.7	259.7	230.4	204.6	177.1	172.9
Long-term loan disbursements to public sector	1,005.5	1,119.3	1,847.4	2,714.9	2,768.0	2,590.0	2,553.3
Portfolio investment (sovereign bond)	0.0	2,000.0	750.0	500.0	500.0	500.0	1,658.3
Private sector	4,459.8	6,416.2	4,058.9	5,219.6	5,592.1	7,532.5	6,852.7
Foreign direct investment in Kenya	386.5	850.2	1,346.9	1,717.9	2,115.0	2,393.5	2,584.3
Long-term loan disbursements to private sector	1,491.5	1,621.0	1,756.1	1,961.5	2,191.3	2,440.4	2,705.2
Other net inflows (including errors and omissions)	2,581.8	3,945.0	956.0	1,540.3	1,285.8	2,698.5	1,563.1
Financing	-603.3	-2,416.4	638.5	-974.9	-921.1	-1,305.3	-1,460.0
IMF (net)	203.1	49.1	-76.4	-94.9	-140.7	-158.3	-128.7
Disbursements	225.3	111.4	0.0	0.0	0.0	0.0	0.0
Repayments	-22.1	-62.3	-76.4	-94.9	-140.7	-158.3	-128.7
Change in reserves (-increase)	-806.4	-2,465.5	714.9	-880.0	-780.5	-1,147.0	-1,331.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)							
Total requirements	-9.4	-12.6	-12.0	-11.0	-10.4	-10.9	-10.1
Total sources	9.4	12.6	12.0	11.0	10.4	10.9	10.1
Capital inflows	10.6	16.8	11.0	12.4	11.6	12.4	11.6
Exceptional financing	0.4	0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Change in reserves (-increase)	-1.5	-4.3	1.1	-1.3	-1.0	-1.3	-1.4

Sources: Kenyan authorities and IMF staff estimates and projections.

Table 10. Millennium Development Goal Indicators

	1990	1995	2000	2005	2012
<b>Goal 1: Eradicate extreme poverty and hunger</b>					
Employment to population ratio, 15+, total (%)	67	65	62	59	61
Employment to population ratio, ages 15-24, total (%)	46	42	37	33	33
Income share held by lowest 20%	3	6	..	5	..
Malnutrition prevalence, weight for age (% of children under 5)	..	20	18	18	..
Poverty gap at \$1.25 a day (PPP) (%)	15	9	..	17	..
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	38	29	..	43	..
<b>Goal 2: Achieve universal primary education</b>					
Literacy rate, youth female (% of females ages 15-24)	..	..	92	82	..
Literacy rate, youth male (% of males ages 15-24)	..	..	93	83	..
Primary completion rate, total (% of relevant age group)	..	..	..	91	..
Adjusted net enrollment rate, primary (% of primary school age children)	..	..	66	76	..
<b>Goal 3: Promote gender equality and empower women</b>					
Proportion of seats held by women in national parliaments (%)	1	3	4	7	10
Ratio of female to male primary enrollment (%)	97	98	99	96	..
Ratio of female to male secondary enrollment (%)	80	..	95	95	..
Ratio of female to male tertiary enrollment (%)	..	..	54	60	..
<b>Goal 4: Reduce child mortality</b>					
Immunization, measles (% of children ages 12-23 months)	78	83	78	69	93
Mortality rate, infant (per 1,000 live births)	64	70	69	61	49
Mortality rate, under-5 (per 1,000 live births)	99	111	111	98	73
<b>Goal 5: Improve maternal health</b>					
Births attended by skilled health staff (% of total)	50	45	44	42	..
Contraceptive prevalence (% of women ages 15-49)	27	33	39	39	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	490	530	570	550	400
Pregnant women receiving prenatal care (%)	77	95	76	88	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	65	27	..
Incidence of tuberculosis (per 100,000 people)	140	167	286	361	277
Prevalence of HIV, total (% of population ages 15-49)	3	10	9	7	6
Tuberculosis case detection rate (% of all forms)	36	61	72	80	78
<b>Goal 7: Ensure environmental sustainability</b>					
Forest area (% of land area)	7	6	6	6	6
Improved sanitation facilities (% of population with access)	25	26	27	28	30
Improved water source (% of population with access)	43	47	52	56	62
Marine protected areas (% of territorial waters)	0	6	1	10	20
<b>Goal 8: Develop a global partnership for development</b>					
Net ODA received per capita (current US\$)	50	27	16	21	61
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	29	21	17	9	5
Internet users (per 100 people)	0	0	0	3	32
Mobile cellular subscriptions (per 100 people)	0	0	0	13	71
<b>Other</b>					
Fertility rate, total (births per woman)	6	5	5	5	5
GNI per capita, Atlas method (current US\$)	380	270	420	520	1080
GNI, Atlas method (current US\$) (billions)	9	8	13	19	47
Life expectancy at birth, total (years)	59	56	53	55	61
Literacy rate, adult total (% of people ages 15 and above)	..	..	82	72	..
Trade (% of GDP)	57	72	53	65	55

Source: World Development Indicators.

<sup>1</sup> Figures in italics refer to periods other than those specified.

## Appendix I. Letter of Intent

Nairobi, Kenya

January 16, 2015

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

Dear Ms. Lagarde:

**1.** Kenya is consolidating major institutional reforms following the launch of a devolved system of government—comprising both National and County Governments—as mandated by the 2010 Constitution. By increasing representation and public participation of all Kenyans in decision making, the ongoing process of devolving responsibilities to the 47 newly created counties is strengthening social cohesion, fostering shared growth and thereby promoting political stability. In addition, our economic program, supported by a three-year Extended Credit Facility during 2011-13, has contributed to strengthen macroeconomic stability. Growth has been strong, and Kenya has achieved low-middle income status; inflation has remained contained; our public debt position is sustainable; and fiscal and external buffers have been strengthened. Moreover, Kenya is becoming increasingly integrated into the global market. Our successful debut sovereign bond issue—the largest so far in Sub-Saharan Africa—reflects international investors’ recognition of Kenya as a frontier market, and their growing confidence in our reform efforts and economic outlook.

**2.** In line with our Vision 2030 Development Agenda and the Budget Policy Statement (BPS), we are committed to preserving a stable macro-economic and financial environment while continuing to implement our program of ambitious structural transformation. Our main objective is to promote more rapid and inclusive private sector-led growth, and to achieve stronger results in poverty reduction, while adhering to sustainable medium-term debt targets. We are improving our monetary policy framework and the prudential oversight of our financial sector. At the same time, we are strengthening our public finance management systems with a view to reducing fiscal risks and increasing transparency in government operations.

**3.** In this context, the government intends to use available fiscal space to scale up investments in human capital (including on health and education) and physical infrastructure, while at the same time providing sufficient resources to ensure the success of devolution. To increase food security, we plan to improve productivity in agriculture by expanding irrigation and reducing reliance on rain-fed agricultural production. Infrastructure investments will also address growth bottlenecks and contribute to a more competitive business environment that supports job creation. In particular, we plan to accelerate infrastructure investments in key areas, including the Standard Gauge Railway, a major project fostering regional integration; the upgrading of the port of Mombasa; the construction of new roads; and the expansion of renewable power generation capacity. And we are



investing in modernizing the security sector to protect our citizens and mitigate security-related risks. These measures should help ease the cost of doing business and contribute to a better business environment.

4. However, while these reforms and investments are under way, our economy remains vulnerable to exogenous shocks. Kenya's growing financial integration in global markets, while creating new financing opportunities, has increased vulnerabilities to shifts in investors' risk perceptions. The incidence of security threats and international terrorism affecting our country, and the increasing frequency of weather-related shocks, represent additional challenges.

5. While we are taking determined steps to address these vulnerabilities, to support the sustained implementation of our wide-ranging reforms and mitigate the impact of possible exogenous shocks, we request a blended program supported by Stand-By Arrangement (SBA) and Stand-By Credit Facility (SCF) with total access of SDR488.52 million (180 percent of quota) over the next 12 months, of which SDR352.82 million under the SBA and SDR135.70 million under the SCF. We do not have balance of payments needs under our baseline projections. Nonetheless, potential needs could materialize if major external, security or weather-related shocks were to hit our economy. Therefore we intend to treat both arrangements as precautionary, and we do not intend to draw under these arrangements unless exogenous shocks generate an actual balance of payments financing need. We expect to complete the first review of the program by July 2015 and the second review by January 2016.

6. In addition to providing a buffer against exogenous shocks, the envisaged program supported by SBA-SCF arrangements will provide a policy anchor for our comprehensive reform program. We believe that the policies set out in the attached Memorandum of Economic and Financial Policies (MEFP) will enable us to achieve our program objectives. However, we will take any further measures that may become necessary for this purpose.

7. 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 request of the program supported by SBA-SCF arrangements, this letter of intent, and the attached MEFP and technical memorandum of understanding.

Sincerely yours,

/s/

Henry Rotich  
Cabinet Secretary  
The National Treasury

/s/

Njuguna Ndung'u  
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. BACKGROUND

**1. Kenya is consolidating major institutional reforms.** Following the adoption of a new Constitution in 2010, accountability at all levels of government is being enhanced. A key component of this reform effort is the devolution of previously centralized functions and public resources to the 47 newly-created counties. This process plays a major role in promoting political stability, ensuring adequate representation and public participation of all Kenyans in decision making, and improving the delivery of public services at the local level, under a strong governance framework. In particular, the roles of the National Treasury and Parliament have been redefined for a better oversight of public finances, with strict provisions on budget preparation, regular reporting to Parliament, stakeholder consultations, sharing of information with the public, and prudent public debt management.

**2. Our economic program supported by the Extended Credit Facility during 2011-13 was instrumental in achieving macroeconomic stability and advancing economic reforms.** Growth has been strong, as reflected by the revised national accounts that show Kenya has achieved low-middle income status as measured by per-capita income. Inflation has remained contained reflecting prudent fiscal and monetary policies supported by the modernization of the monetary policy and operations framework. Public debt remains sustainable, supported by the overhaul of the expenditure management framework and VAT reform. Moreover, fiscal and external buffers have been strengthened, supported by Kenya's increasing integration in global markets and its recognition as a frontier market.

**3. However, a number of challenges need to be addressed as part of the economic transformation to underpin shared prosperity.** Our economy remains vulnerable to external and domestic shocks. In particular, Kenya's growing integration to global markets, while creating new financing opportunities, also makes our economy more vulnerable to changes in global risk sentiment. Our economy is also vulnerable to droughts and other weather-related shocks, the frequency of which has increased in the recent past, given the prevalence of rain-fed agriculture and high dependence on hydro-power generation. In addition, fiscal related challenges surrounding devolution (including increasing pressures on the government's wage bill), if not addressed early enough, would be a drag on our development effort in the medium term.

**4. We are taking determined steps to address these vulnerabilities and bolster our resilience to shocks.** In particular, we are committed to maintain macroeconomic stability, including by gradually consolidating fiscal policy, which would allow us to further strengthen our fiscal buffers and our resilience to shocks. We will also continue to bolster prudential oversight of the financial sector, and to improve public finance management, with a view to reducing fiscal risks especially arising from the fast-track implementation of the devolution process and from contingent liabilities. However, implementing these reforms will take time. The Fund-supported program supported by SBA-SCF arrangements provides a buffer to mitigate the impact of potential exogenous shocks.

## II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

**5. Real GDP growth has been robust, inflation is within the Government's target range, and the exchange rate has remained broadly stable.** The economy expanded by 5.8 percent in real terms during the second quarter of 2014, driven mainly by rising private and public investments. However, poor rains have constrained agriculture growth, and the security concerns have dampened tourist activity. Following an increase in the first half of the year reflecting food and energy price increases, inflation has remained since August within our target range ( $5 \pm 2.5$  percent), and stood at 6.4 percent in October. Gross international reserves amounted to US\$7.6 billion in October ( $4\frac{1}{4}$  months of prospective imports), also helped by the US\$2 billion debut sovereign bond in June 2014.

**6. Our baseline projections are for continued strong growth and contained inflation, but subject to downside risks.** Growth is expected to slow modestly to  $5\frac{1}{4}$  percent in 2014 from  $5\frac{3}{4}$  percent in 2013, reflecting the headwinds from poor rains and the impact of security threats on tourism, but to increase to around 7 percent over the medium term. This reflects rising public investments that are removing bottlenecks for private sector activity, and continued strong Foreign Direct Investments (FDI) taking advantage of our market-friendly business environment. Growth risks are tilted on the downside in the near term, reflecting weaker global growth, potential turbulence in global markets from the expected normalization of monetary policy in advanced economies, and security concerns. Inflation is expected to be on a downward trend in the coming months, as the food and energy price shocks wear off, although continued strong credit growth could put pressure on prices. We project headline inflation to converge gradually towards the mid-point of our target range.

## III. PROGRAM OBJECTIVES

**7. Our main policy objectives are to strengthen macroeconomic stability, deepen structural and governance reforms, improve security and support 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 would provide a policy anchor to implement our ambitious reform program, and includes the following key policy priorities:

- **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 a low inflation rate of around 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 arising mainly from rapid credit growth and expansion of cross-border operations by Kenyan banks.
- **Business environment.** Creating a more favorable business environment, including by strengthening security, deepening structural and governance reforms with a view to ease cost of doing business, and thus boost investments and employment creation.
- **Data provision.** Improving data quality to support economic policy making and facilitate transition to frontier/emerging market status.

#### IV. PROGRAM POLICIES

##### A. Fiscal Policy

**8. Main policy objectives.** Our fiscal anchor is to maintain gross public debt below 45 percent of GDP in present value terms, which is below the EAMU convergence criterion of 50 percent and well below the LIC DSA debt threshold of 74 percent. Consistent with this objective, our Medium-Term Fiscal Framework envisages a gradual fiscal adjustment, to be achieved through a combination of (i) lower current spending; and (ii) a further mobilization of revenues, which we will achieve by broadening the tax base and improving revenue administration. Such a strategy will create room for greater social and infrastructure spending, thus supporting inclusive growth. Additional important priorities for the government include improving public finance management, and containing and managing fiscal risks associated with fast-track implementation of devolution and contingent liabilities.

**9. Fiscal stance.** Our fiscal target under the program for 2014/15 is an overall fiscal deficit for the national government (excluding SGR-related spending) of 6.1 percent of GDP. The 2014/15 budget keeps recurrent spending broadly unchanged relative to the previous year, and provides room for increasing development spending by about 2¾ percent of GDP, mainly on account of a front-loading of capital spending related to the Standard Gauge Railway (SGR). Consistent with our commitments to meet the EAMU convergence criteria on fiscal deficit and debt targets, we intend to adopt additional revenue raising measures (outlined below) that would allow us to reduce gradually the overall fiscal deficit to about 4 percent of GDP by 2018/19, while at the same time preserving adequate space for priority social and infrastructure spending in line with our Vision 2030 Development Agenda.

**10. Revenue mobilization.** We have recently taken several steps to broaden the tax base and improve revenue administration. These include the introduction of: (i) a new capital gains tax, effective January 1, 2015, expected to yield annually around 0.2 percent of GDP in additional revenues; and (ii) a VAT withholding tax (at 6 percent, out of the 16 percent standard VAT rate) that would raise 0.2 percent of GDP over the medium term. Going forward, we will submit to Parliament by end-June 2015 a proposal to revise excise rates for selected products, and an automatic semi-annual inflation indexation of specific excise taxes, to prevent the erosion of excise revenue in real terms. This is aimed at generating additional revenue of 0.1 percent of GDP per year. Moreover, we are committed to abolish by August 2016 the VAT exemption on oil products. This measure is

expected to increase VAT revenue by about 0.3 percent of GDP per year. We will also introduce several measures aimed at improving tax compliance. These include: (i) removing the waiver of interest on overdue tax obligations; (ii) adopting a new Tax Procedure Code, which would significantly simplify tax payment procedures for several taxes (VAT, income, and excise taxes); (iii) establishing a national single window for trade facilitation, which together with the recently introduced electronic payment system for taxes (i-tax), would improve efficiency of tax collection and reduce scope for leakages. This package of measures will allow us to make significant progress towards the EAMU indicative tax revenue target of 25 percent of GDP.

**11. Expenditure measures.** To reorient our spending towards critical social and infrastructure areas, we will strengthen efforts to adhere to the 30:70 percent of development to recurrent spending consistent with the PFM Act. This will be pursued in particular by containing the wage bill. To this end, we have put in place a hiring freeze for the national government during the current fiscal year (except for priority sectors such as education, health, and security), and are in the process of finalizing a staff rationalization and remuneration policy. Specifically, based on recent biometric staff audits, by end-March 2015, we will complete a report on personnel audits including a time-bound action plan for the national and county governments aimed at rationalizing personnel to avoid overlapping positions (**structural benchmark**). With these inputs, we intend to define a remuneration and hiring policy aimed at reducing the national government's wage bill by about  $\frac{1}{4}$  percent of GDP per year over the medium term. In addition, by end-June 2015, we will fully integrate payroll payments to core civil service through the Government Human Resource Information System (GHRIS) in the Integrated Financial Management Information System (IFMIS) (**structural benchmark**), strengthening the integrity of the government's payroll.

**12. Devolution process.** We are committed to ensure the success of the devolution process, by strengthening accountability and fiscal discipline in the use of devolved resources, to achieve our Constitutional objective of better service delivery and enhanced equitable economic development at the county level. To that end, we will adopt by end-March 2015 a framework establishing limits and guidelines for borrowing by county governments consistent with the PFM Act, and incorporate future county borrowing in the general government's medium-term debt strategy (**structural benchmark**), which will help contain fiscal risks and ensure public debt sustainability. Going forward, we are committed to (i) adequately staff the Intergovernmental Fiscal Relations Department to make it fully operational; and (ii) complete by end-September 2015 an audit of outstanding county assets and liabilities, including those inherited at the onset of devolution (**structural benchmark**). Further, to avoid duplication and/or distortions in the introduction of local taxes and fees that could hurt the business environment, the Treasury intends to organize a consultation process to discuss ways to help ensure that revenue raising initiatives (including fees and charges) at the county level are conforming to the Constitution and PFM Act. In addition, the national government will support counties build capacity in improving revenue collection, including by automation of county revenue collection and leveraging of the Kenya Revenue Authority (KRA) infrastructure.

**13. Public finance management.** To strengthen cash and debt management, we have completed the implementation of Phase I interim solution for the core Treasury Single Account (TSA) system. This will allow us to aggregate daily in the TSA all revenue; payments by ministries, departments, and agencies; the Exchequer's activities; the CBK advances; and proceeds from

borrowing activities, to compute the overall cash/overdraft position of the national government on a daily basis. Further, by end-June 2015, we will complete the full Phase I core TSA, which will result in the full integration of the TSA with IFMIS (**structural benchmark**). Progress in TSA implementation will be reviewed during the first program review. In addition, we will:

- ensure that, by end-March 2015, IFMIS is fully operational for all ministries and county governments;
- submit to Parliament by end-March 2015 new Bills on Public Procurement and on Disposal of Assets, bringing on board new public procurement and asset disposal methods, and enhanced sanctions, penalties and new procedures to limit fiscal risks;
- produce, by September 2015, GFS-compliant consolidated financial statements for the national government and extra-budgetary units and entities (**structural benchmark**), with a view to, by end-December 2015: (i) publish these data in the Quarterly Budget and Economic Review (QBER); and (ii) extend the coverage of financial statements to all county governments;
- to contain and manage fiscal risks from contingent liabilities beyond those associated with devolution, we will (a) report on all commitments and obligations under all existing PPPs and guarantees, starting with the 2015 Medium-Term Budget Policy Statement (**structural benchmark**); and (b) adopt by end-June 2015 a new risk and exposure assessment framework under the Public Private Partnership (PPP) program.
- complete by end-March 2015, an action plan aimed at strengthening the staffing of the Public Debt Management Office at the National Treasury (**structural benchmark**), with a view to implement it by June 2015.

**14. Parastatal reform.** We are overhauling the legal and regulatory framework governing our parastatal sector, aimed at strengthening governance, improving accountability, reducing budgetary transfers to parastatals for current spending, and providing a framework for the establishment of county-owned enterprises. The envisaged reforms in this area include: (i) separating the commercial activities from the regulatory and policymaking functions to improve service delivery; (ii) establishing a modern governance framework to increase efficiency and accountability (including transparent rules for the appointment of boards and management team, as well as Codes of conduct, professional ethics, and performance management); (iii) continue to reduce the number of parastatal institutions to eliminate duplication and overlaps (we are already in the process of reducing the number of parastatals from about 300 to under 200); and (iv) establishing a Government Investment Corporation, which would act as a holding company exercising ownership and oversight responsibilities for all extra-budgetary units and entities under the National Treasury, ensuring that the annual budgets of parastatals are fully integrated with the national government's budget. We will continue to discuss progress in implementing these reforms during program reviews.

**15. Framework for extractive industries.** The Extractive Industry Tax Regime Bill has been enacted into law and the new Mining Bill is currently before parliament. In addition, we are formulating a new Petroleum Bill aimed at modernizing the production-sharing scheme for oil

extraction, and establishing a new such scheme for gas extraction. The potential boost in fiscal revenues over the medium term from the ongoing exploration of oil, gas and other natural resources will be fully and transparently recorded in the budget, and their use fully accounted in the context of the budget reporting system. Once the above legal framework is in place, we intend to submit to Parliament a draft law that would establish a National Sovereign Wealth Fund (NSWF), conforming with international best practices regarding transparency, governance, accountability, and full integration with the budget. The key objectives of the NSWF would include: (i) supporting macroeconomic stability and protecting public investment from volatility in natural resource revenues; and (ii) saving for future generations. We are committed to preserve a sound asset and liability management framework, and therefore transfers of public resources to the NSWF will occur only when the budget is in a surplus position.

## B. Monetary Policy

**16. Policy objectives:** The CBK will continue to aim at maintaining headline inflation at the mid-point of target range ( $5 \pm 2.5$  percent), in the context of a floating exchange rate regime. Except for a temporary surge in July and August 2014, inflation has trended downwards in recent months. We are confident that our monetary policy framework will continue to lower inflation and anchor inflation expectations around the mid-point of the target band. The inflation objectives under the program will be monitored through a monetary policy consultation clause (MPCC), although we will continue to monitor developments in CBK's net domestic assets (**indicative target**). Consistent with the EAC convergence criterion on international reserves ( $4\frac{1}{2}$  months of imports), and with a view to strengthen buffers against external shocks, we aim at a build-up of net international reserves during 2015 (**performance criteria for end-March and end-September 2015**).

**17. Monetary policy framework.** We will submit to Parliament by end-March the draft Central Bank Bill, which enshrines in legislation the CBK's current policy of prioritizing price stability and strengthens further CBK's operational independence (**structural benchmark**). Further measures to support the eventual adoption of a fully-fledged inflation targeting framework include:

- **Entrenching the forecasting and policy analysis framework** into the organizational structure of the CBK. Specifically, to improve CBK's institutional capacity in inflation forecasting, we are going to establish by March 2015 an inflation modeling and forecasting unit at the CBK. This unit will provide scenario analysis and other inputs to inform monetary policy decisions.
- **Increasing flexibility in the use of monetary instruments**, to enhance CBK's capacity to steer market rates and improve the interest rate transmission channel. In that regard, the CBK and the National Treasury are exploring options to increase the stock of government securities, for the CBK to have a wider scope for repo operations.
- **Improving liquidity forecasting**, including strengthening the coordination between the National Treasury and the CBK. In this context, we are committed to: (i) ensure that the CBK's overdraft facility will cover only temporary liquidity shortfalls in line with the PFM Act provisions; (ii) increase the frequency of submission by the National Treasury to the CBK of government cash flow plans to quarterly (rather than annually); and (iii) strengthen the

analytical capacity in liquidity forecasting and cash flow management at both the National Treasury and the CBK.

- **Monitoring effectiveness of the KBRR.** The recent introduction of the Kenya Bank Reference Rate (KBRR) has allowed bank customers to better compare lending rates offered by different financial institutions. We are committed to continue monitoring the effectiveness and take remedial actions as needed.

### C. Financial Sector

**18. Policy objectives:** We intend to continue safeguarding financial stability by further strengthening the prudential oversight framework; and managing risks associated with rapid credit growth, rising cross-border operations, and expansion of banks activities into holding group structures. As part of this process, we intend to enhance our stress testing capacity. Finally, we are committed to strengthen consolidated supervision and our crisis preparedness and management framework, including in cooperation with host supervisors in the region.

**19. Prudential oversight.** With a view to strengthen our banking sector prudential framework and maintain financial stability, we will:

- By end-March 2015, review and strictly implement the Prudential Guideline on Risk Classification of Assets and Provisioning, in order to address the observed trend decline in the non-performing loans provisioning coverage ratio. We are committed to assess the progress made in this regard in the course of program reviews.
- Starting in March 2015, require banks to provide CBK on a monthly basis: (i) detailed information on restructured loans with a view to avoid lending ever-greening practices for bank credit; and (ii) data on loan-loss recovery rates.
- Prepare by March 2015 an action plan to strengthen the CBK's stress testing framework and methodology which will be used for both micro- and macro-prudential supervision purposes, and augment staff's technical capacity. The roadmap for implementation and progress made will be discussed with IMF staff during program reviews.
- Initiate measures to mitigate banks' exposure to mortgages. To that end, in consultation with the IMF, by end-April 2015, we will carry out a survey of banks' risk exposure to mortgages, and will take remedial action to address vulnerabilities.
- Develop by March 2015 the assessment framework of the supervisory and regulatory regimes of host supervisors in order to improve cross-border banking oversight. We will subsequently conduct a pilot assessment of the most significant host jurisdictions.

### D. Ease of Doing Business and Data Quality

**20. Policy objectives:** We are taking steps to further 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. In addition, a successful transition to emerging market status will require, among other things, improving the quality, coverage and timeliness of Kenya's macroeconomic statistics.



**21. Governance and business environment.** We consider creation of a conducive business environment a key prerequisite for strong economic growth and poverty reduction. Our efforts in this area are focused on the following reforms:

- **Advancing business regulatory reforms to reduce the cost of doing business.** Two new important draft bills—the Company Bill and Insolvency Bill—are currently under consideration by Parliament, and are expected to be enacted by September 2015. In addition, during 2015 we plan to: (i) consolidate all government approvals for starting a business at one access point; (ii) commence the company registration online; (iii) develop a policy on preferential debtors and creditors to facilitate the implementation of the new expected insolvency framework; (iv) complete the digitization of construction records in all counties; (v) finalize the declaration module under the Single Window to provide a one-stop shop for faster import clearance of cargo; and (vi) submit to Parliament a new bill aimed at easing property registration.
- **Strengthening security.** We are taking a number of steps aimed at strengthening security of our borders and throughout the country, including by: (i) increasing investments in security infrastructure such as housing, offices, and security installations and equipments; (ii) developing standards and guidelines for installation of integrated closed-circuit television (CCTV) systems in all urban buildings; (iii) strengthening institutional and legal framework for border security; (iv) undertaking a comprehensive training program on modern personnel management and policing; and (v) investing in a modern and functional command and control.

**22. Data quality and timeliness.** We are taking concrete steps to improve the quality and timeliness of key data towards subscribing to the Fund’s Special Data Dissemination Standard. In particular, we recognize the need to make rapid progress in (i) national accounts (production indices and unemployment statistics); (ii) external sector statistics (gaps include service exports, long-term inflows, the international investment position, and private sector debt); and (iii) social indicators (latest household survey is from 2005/06). To make progress in addressing external sector data gaps, and mitigate risks arising from the current lack of information on private sector debt, we have allocated the necessary resources to KNBS to carry out promptly a Foreign Investment Survey (FIS) covering 2012 and 2013. We are committed to publish the FIS surveys for 2012-13 by end-September 2015 (**structural benchmark**), and intend to conduct regular annual surveys for subsequent years, with a view to improving the assessment of the financial account of the balance of payments. Finally, we will conduct a new household survey in 2015/16, and start publishing annual unemployment statistics in 2016.

**Table 1. Kenya: Proposed Quantitative Performance Criteria and Indicative Targets**

(In billions of Kenyan shillings; unless otherwise indicated)

	2014		2015		
	Projection End-Dec.	Performance Criteria (PC)/Indicative targets (IT)			
		End-Mar (PC)	End-Jun (IT)	End-Sep (PC)	End-Dec (IT)
<b>Quantitative performance criteria <sup>1</sup></b>					
<b>Fiscal targets</b>					
Primary budget balance of the national government (–=deficit, floor) <sup>2,3</sup>	-104.1	-171.9	-209.9	-52.9	-98.8
<b>Monetary targets <sup>4,5</sup></b>					
Stock of central bank net international reserves (floor, in millions of US\$) <sup>6,7</sup>	5,909	5,956	6,115	6,173	6,132
<b>Public debt targets</b>					
Contracting and guaranteeing of all medium and long term nonconcessional external debt by the national government (ceiling, millions of US\$) <sup>8,9</sup>	1,100	1,100	1,600	1,600	2,100
National government external payment arrears (ceiling, millions of US\$) <sup>10</sup>	0	0	0	0	0
<b>Monetary policy consultation clause</b>					
Upper band	...	7.5	7.5	7.5	7.5
Center inflation target <sup>11</sup>	...	5.0	5.0	5.0	5.0
Lower band	...	2.5	2.5	2.5	2.5
<b>Indicative targets</b>					
Stock of net domestic assets of the central bank (ceiling)	-230	-206	-186	-177	-192
Priority social expenditures of the national government (floor) <sup>3</sup>	24	40	52	14	25
Stock of all guarantees issued by the national government (ceiling) <sup>3</sup>	45	50	50	50	50
<i>Memorandum items:</i>					
Maximum upward adjustment of the primary deficit ceiling owing to excess in concessional loans relative to program projections <sup>3</sup>	...	59.5	79.3	16.8	42.0
Programmed concessional loans <sup>3</sup>	...	85.6	119.0	23.7	69.5
Budgeted concessional loans <sup>3</sup>	...	145.1	198.3	40.5	111.4
Programmed external commercial debt (millions of US\$) <sup>3</sup>	...	750	750	750	1,250
Program grants <sup>3</sup>	...	3.8	6.1	0.5	2.5

<sup>1</sup> Performance criteria for end-March 2015 and end-September 2015, and indicative target for end-June 2015 and end-December 2015.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> For program monitoring, the daily average for the month when testing dates are due.<sup>5</sup> 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 by the shortfall of external budgetary support (program grants) and external commercial debt relative to the programmed amounts.<sup>6</sup> Excludes encumbered reserves.<sup>7</sup> Using exchange rates as at end-October 2014 (see TMU ¶9).<sup>8</sup> Cumulative flow of contracted debt, from July 1, 2014.<sup>9</sup> The targets on the ceiling of non-concessional external debt combine nonconcessional project loans, syndicated loan and sovereign bond.<sup>10</sup> Continuous.<sup>11</sup> Compliance will be evaluated based on the 12-month inflation average of the latest three months.

Table 2. Kenya: Proposed Structural Benchmarks

Measure	Target Date	Macro Criticality
Complete the full Phase I core TSA to fully integrate the TSA with IFMIS (¶13).	End-June 2015	Improve liquidity management
Complete an action plan aimed at strengthening the staffing of the Public Debt Management Office at the National Treasury (¶13).	End-March 2015	Improve public debt management and reduce fiscal risks
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 (¶13).	End-March 2015	Limit fiscal risks
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 (¶11).	End-March 2015	Contain current spending to create space for infrastructure and social spending
Fully integrate payroll payments to core civil service through the GHRIS in IFMIS (¶11).	End-June 2015	Contain current spending to create space for infrastructure and social spending
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 (¶12).	End-March 2015	Limit fiscal risks
Complete the audit of assets and liabilities of all counties including those inherited at the onset of devolution (¶12).	End-September 2015	Limit fiscal risks
Produce GFS-compliant consolidated fiscal accounts for the national government and extra-budgetary units and entities (¶13).	End-September 2015	Limit fiscal risks
Submit to Parliament a new Central Bank Bill that sets price stability as primary CBK objective (¶17).	End-March 2015	Strengthen CBK's independence and clarify policy objectives
Publish Foreign Investment Survey covering years 2012-13 (¶22).	End-September 2015	Improve BOP data quality, assessment of private debt vulnerabilities, and information for macro policy making

## 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.

### I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

3. Quantitative performance criteria are proposed 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**); 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**).

## II. 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.

<b>TMU Table 1. Kenya: African Mission in Somalia (AMISOM) Grant Schedule</b>				
(Billions of Kenyan Shillings)				
	2015			
	Mar.	Jun.	Sep.	Dec.
Program Amount <sup>1</sup>	3.8	6.1	0.5	2.5

Source: Authorities' data.

<sup>1</sup> For FY2014/15 cumulative from July 1, 2014, and for FY2015/16 cumulative from July 1, 2015.

### III. 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), including the August 28, 2009 General allocation and the September 9, 2009 Special allocation;
  - 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 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 <sup>1</sup>	40	52	14	25
External commercial debt <sup>2</sup>	750	750	750	1,250

Source: Kenyan authorities.

<sup>1</sup> For FY2014/15 cumulative from July 1, 2014, and for FY2015/16 cumulative from July 1, 2015.<sup>2</sup> 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 Dollar	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
SDR	132.09	1.4783

Source: Central Bank of Kenya.

#### **IV. PERFORMANCE CRITERION ON NONCONCESSIONAL EXTERNAL DEBT CONTRACTED OR GUARANTEED BY THE NATIONAL GOVERNMENT**

**10.** The definitions of “debt” and “concessional borrowing” for the purposes of this memorandum of understanding are as set out in point 9 of Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009. This definition also includes the following:

- Debt is understood to mean a direct, that is, not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
  - loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
  - suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
  - leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

**11.** Debt is considered concessional if, on the date on which the contract was signed, the ratio of the present value of the loan to the nominal value of the loan is less than 65 percent (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of



the loan will be calculated by discounting future payments of interest and principal using a discount rate set at 5 percent.

**12.** The definition of **external debt**, for the purposes of the program, is any debt as defined in paragraph 10 above, which is denominated in foreign currency, i.e., currency other than Kenyan shillings (Ksh). Similarly, external borrowing is borrowing denominated in foreign currency.

**13.** The performance criterion on nonconcessional external debt is measured as a cumulative flow from July 1, 2014 and this includes nonconcessional external debt contracted or guaranteed by the national government. The authorities should report to Fund staff nonconcessional medium- and long-term external borrowing undertaken without national government guarantee by the public enterprises and other parastatals, in order to monitor the potential fiscal risk to the government. Medium- and long-term debt refers to debt with maturity of one year or longer.

**14.** The ceiling on nonconcessional external borrowing (see Table 1 in the MEFP) encompasses commercial loans, including the proceeds of syndicated loans, sovereign bonds, and other non-concessional financing instruments including non-concessional project financing.

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

**15.** 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.

**16.** The performance criterion on the national government external payment arrears is defined as a flow from July 1, 2014 and applies on a continuous basis.

## **VI. MONETARY POLICY CONSULTATION CLAUSE**

**17.** 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.

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

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

**18. 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.

**19.** 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**

**20.** 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**

**21.** 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**

**22.** 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**

**23.** 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
<b>1. Primary balance of the national government</b>			
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
<b>2. Gross official international reserves</b>			
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)

<b>3. Official reserve liabilities</b>			
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
<b>4. Net domestic assets</b>			
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
<b>5. Other indicators</b>			
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

## Annex I. Potential Exposure to Sudden Stops and Other Exogenous Shocks in Kenya

Kenya has advanced major institutional and economic reforms in recent years. However, the Kenyan economy remains vulnerable to exogenous shocks. In particular, greater integration into global markets in recent years makes Kenya increasingly vulnerable to shifts in investor sentiment. Sharp deterioration in security conditions could trigger a foreign investors' re-assessment of country risk, adversely affecting FDI and portfolio flows. In addition, weather related shocks may increase external financing needs. This Annex reviews Kenya's exposure to sudden stops, the impact of security shocks on the tourism sector, and the impact of weather-related shocks on the economy.

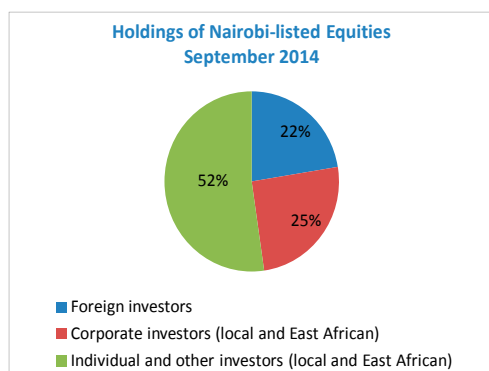
### A. Exposure to Sudden Stops

**Deeper integration to global financial markets is creating new opportunities, but carries risks.**

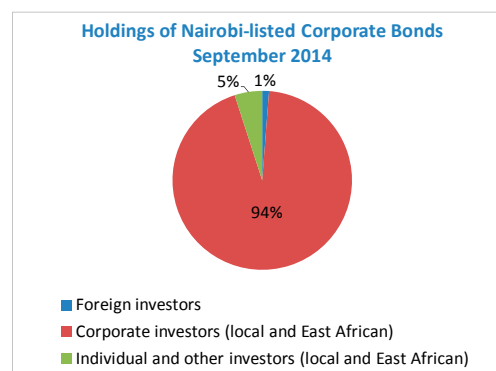
Annual capital inflows have reached about 10 percent of GDP in recent years, enabling an increase in Kenya's reserve buffer despite large current account deficits. Although not well reflected in official statistics,<sup>1</sup> FDI and portfolio investment have accounted for significant shares of financing.

**Except for the recent Eurobond issuances, portfolio inflows have been mainly into equities.**

Foreign investors account for around 50 percent of stock market turnover. As at September 2014, foreign investors' holdings accounted for over 20 percent of listed shares held (text charts). Foreign investors have limited exposure to other Kenyan debt securities holding about 7 percent of domestically-issued government securities, and about 2 percent of listed corporate bonds. The estimated stock of external portfolio liabilities (around US\$ 2–2.5 billion at end-2013<sup>2</sup>) corresponds to 30–38 percent of gross official reserves.



Source: Kenyan Capital Markets Authority.



Source: Kenyan Capital Markets Authority.

<sup>1</sup> For more detail see Appendix 1 in [ECF sixth review staff report](#) and the discussion in the 2014 [Article IV staff report](#).

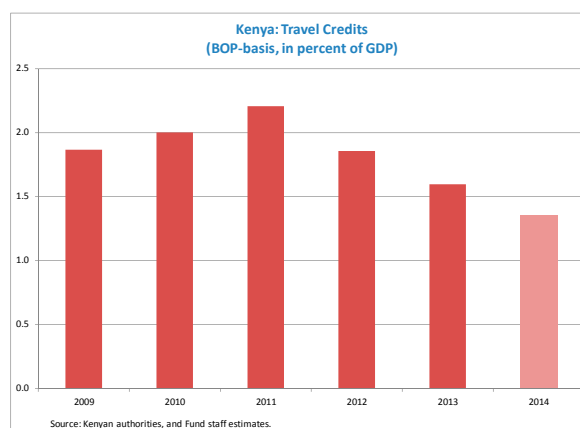
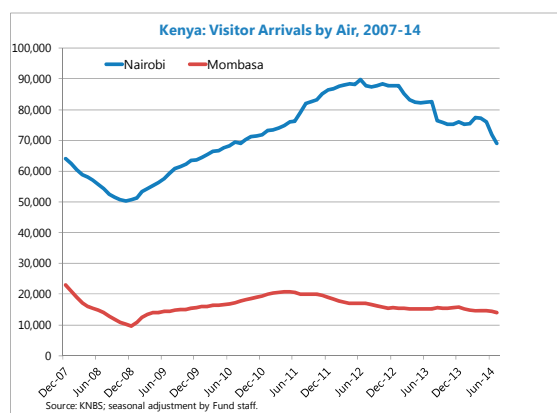
<sup>2</sup> See 2014 Article IV staff report (external stability assessment).

**Data gaps on nongovernment sector’s external financing flows are significant.** Official BOP statistics overstate the share of short-term inflows and understate FDI, portfolio, and medium- and long-term inflows. Data on private sector external debt are not available, and information from a Foreign Investment Survey is available only to 2011. Steps to close these data gaps (MEFP ¶22) are important in order to monitor private sector external debt and assess vulnerabilities to a sudden stop of these flows.

## B. Impact of Security Shocks on Kenya’s Tourism Sector

**Kenya’s tourism sector is under pressure from a deterioration in security conditions, which have been deterring travel into Kenya.**

- National accounts.** Data through 2014H1 show a year-on-year fall of more than 25 percent in activity in the accommodation and restaurants sector. This sector accounts for about 2 percent of gross value added.
- Tourism arrivals.** Arrivals into Nairobi declined in early 2013 because of election-related uncertainty (text chart). Following a slump in August 2013 due to concerns raised by a fire in the main airport terminal, arrivals stabilized in the aftermath of the September 2013 Westgate mall attack. However, renewed security concerns, especially in the coastal area led to a significant drop starting in mid-2014. Kenya Airways reported a large after-tax loss (Ksh 10.5 billion) for the six months to September 2014.
- Travel credits.** Balance of payments-basis travel credits show a relatively modest decline so far in 2014 (about 7 percent in U.S. dollar terms year-on-year, for January-September 2014), falling steadily as a share of GDP since 2011. This may be related to still-strong business travel into the country.

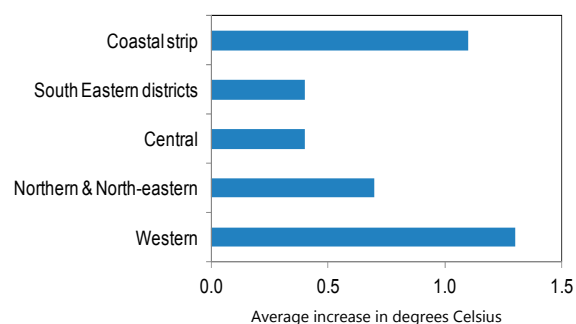


## C. Impact of Weather Related Shocks in Kenya

Climate changes have resulted in an intensification of extreme weather events in Kenya, with an increase in the frequency and magnitude of natural disasters.<sup>3</sup> The economic cost of these events (especially droughts) has been significant, adversely affecting hydropower generation, disrupting industrial production and tourism, damaging agricultural production and livestock, and reducing water availability.

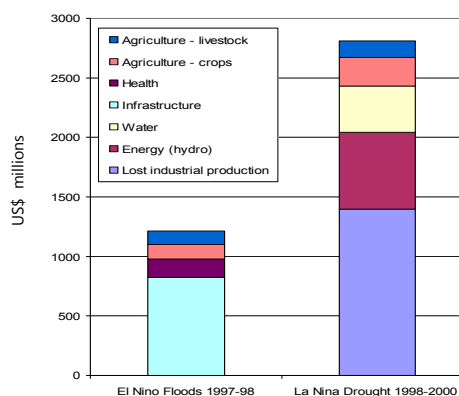
- The El Niño flood (1997–98), the most severe flood since 1960, had an estimated cost of \$1.2 billion. It flooded large parts of Mombasa.
- The severe La Niña drought (1998–2000) affected the Western region, with estimated total costs of US\$2.8 billion.
- The drought in 2008/09 required the authorities to import maize and fuel worth US\$1 billion to cover the shortfall in domestic food and electricity production.
- The drought in the Horn of Africa (2011/12) required about US\$¾ billion in imports for humanitarian emergency food assistance and fuel imports to substitute for lower hydropower generation.

**Kenya: Increase in average temperatures since 1960**



Source: "The Economics of Climate Change in Kenya," T. Downing, October 2009, funded by UK DFID and Danish IDA.

**Kenya: Impact of El Niño and La Niña effects**



Source: "The Economics of Climate Change in Kenya," T. Downing, October 2009, funded by UK DFID and Danish IDA.

The recurring nature of droughts has prompted the authorities to step up investments in renewable energy generation to mitigate the impact of weather-related shocks (Box 1), and to prioritize land irrigation to improve food security.

<sup>3</sup> See, for example, "The Economics of Climate Change in Kenya," T. Downing, October 2009, funded by U.K., Department for International Development and Danish International Development Agency.

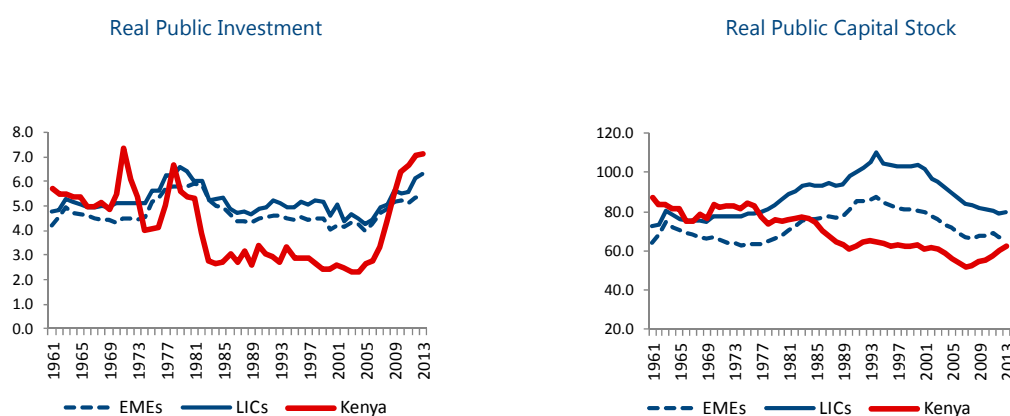


## Annex II. The Macroeconomic Effects of Scaling up Public Investment in Kenya

**Kenya's stock of public capital (a proxy for infrastructure capital) as a share of output has declined significantly since the 1970s** (Annex Figure II.1). Such decline is not unique to Kenya, and is consistent with observations in other developing economies (October 2014 *WEO*, Chapter 3). Furthermore, infrastructure provision for Kenya has, on average, been lower than that for EMEs and LICs, at least over the last decade. The government of Kenya is keen on reversing this trend. To this aim, it has initiated a scaling up of public investment to address existing infrastructure bottlenecks, expand productive capacity, and support stronger growth.

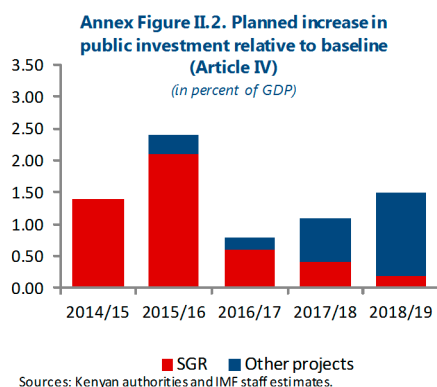
**Annex Figure II.1. Public Capital Stock and Public Investment in Kenya and other economies**

(Percent of GDP)

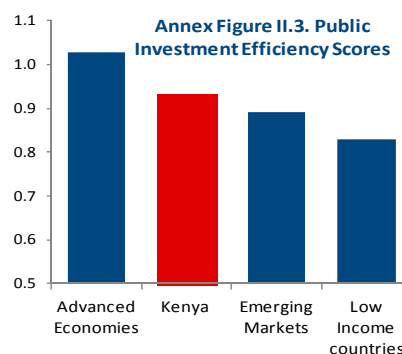


Sources: IMF Fiscal Monitor Database; and IMF staff calculations.

**The front-loaded scaling up of public investment will encompass numerous “core” infrastructure projects across different sectors.** The envisaged scaling up amounts to around 1½ percent of GDP per year over the next five years. It encompasses (i) the construction of a Standard Gauge Railway (SGR) linking Mombasa to Nairobi, and financed mainly by a semi-concessional external loan (Box 2); and (ii) other projects financed domestically and by external concessional loans in energy, irrigation, communications systems, and transport.



Sources: Kenyan authorities and IMF staff estimates.

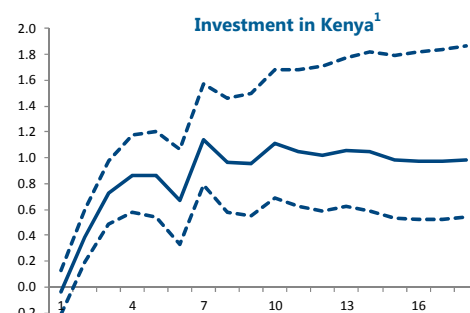


Source: Albino-War et. al (2014)

**The efficiency of public investment in Kenya is high relative to other countries at a similar level of development but there is scope for improvement** (Annex Figure II.3, Albino-War et. al 2014). An earlier study also ranks Kenya fairly well, especially in the area of project management (see, Dabla-Norris et. al 2011). This is reflected in high execution rates in Kenya, which, for most projects, hovered around 90 percent in recent years.<sup>1</sup> Kenya's medium-term budgeting framework also fares relatively well compared to countries in the region (see, FAD TA report on Fiscal Transparency Evaluation for Kenya, forthcoming). Nonetheless, Kenya still shows some gaps in project appraisal and selection (see, Dabla-Norris et. al 2011), in particular regarding more rigorous and transparent cost-benefit and risk-costing analyses. Achieving higher efficiency will be key to realize the full gains from the planned scaling up in public investment, including in regard to the supply-side effects that would bring forth favorable effects on debt ratios in the medium to long-run.

**Gains from higher public investment are potentially large, raising output both in the short-term (demand effects via the fiscal multiplier) and in the long-term (supply effects).** To gauge these effects for Kenya, we estimate a Bayesian Vector Autoregression (VAR) model using quarterly data over 2001 to 2014 on real tax revenues, real public investment, real output, and real public debt. The identifying assumption is that, as in Blanchard and Perotti (2002), discretionary government spending can only respond to output with one quarter lag.<sup>2</sup> Estimates suggest that public investment shocks have statistically significant and persistent effects on output (Annex Figure II.4), with a multiplier of 1.1 after two years, and 1 after four years. This suggests a crowding-in of private investment, given the highly complementary nature of infrastructure services. The high persistence of the effects on output is attributable to Kenya's relatively favorable level of efficiency and high project execution rates which help ensure that a sizeable investment is converted into productive public capital stock. The estimates are in the range of values observed in the literature (see, Ilzetzki, Mendoza, and Vegh, 2012; and Abdallah, Cerisola, Davies, and Fisher, forthcoming). Furthermore, there is some evidence that public investment increases in Kenya lead to a mild reduction in the debt-to-GDP ratio (albeit only marginally significant), in the medium to long-term. This result is at odds with the WEO finding that public investment in developing economies raise output but at the cost of higher debt ratios due to inefficiency issues. Our results suggest that this may be less of a concern for Kenya. Overall, our estimates indicate that the planned increase in public investment will add around 1 percent of GDP growth per year over the medium-term relative to the baseline. Risks of overheating are limited given that projects have high import content (e.g., 60 percent for the SGR), and that currently Kenya's growth remains below potential.

Annex Figure II.4. Fiscal Multipliers for Public



<sup>1</sup> Figure shows the median (solid) and the 16<sup>th</sup> and 84<sup>th</sup> percentiles (dotted) from the empirical posterior density. Sources: Kenyan authorities and IMF staff estimates.

<sup>1</sup> Execution rates of foreign financed projects are lower, but decisive actions are being taken to address the issue.

<sup>2</sup> We take first-differences of the log of each variable, and, to account for changes in the underlying drift terms, we subtract a changing mean. We use a standard diffuse (Jeffrey's) prior on the reduced form parameters, implying that their joint posterior density is of the Normal-Wishart form (see, Uhlig 2005).

## Annex III. Debt Sustainability Analysis—Update

*This Debt Sustainability Analysis (DSA) update reflects revisions since the previous DSA completed in September 2014 for the 2014 Article IV consultation, 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.<sup>1</sup> However, data gaps in the financial accounts of the balance of payments and the international investment position need to be addressed promptly to contain risks of an unmonitored buildup in nongovernment 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 September 2014 DSA include (text table):

**Kenya: Selected Macroeconomic Assumptions**

	2012	2013	2014	2015	Long term 1/
Real GDP Growth					
Current DSA	4.5	5.7	5.3	6.9	6.8
Previous DSA (September 2014) 2/	4.5	4.6	5.0	5.8	7.0
Primary Fiscal Deficit (percent of GDP)					
Current DSA	2.3	3.0	4.5	5.1	0.7
Previous DSA (September 2014)	2.8	3.5	3.2	2.3	0.9
Non-interest Current Account Deficit (percent of GDP)					
Current DSA	8.2	8.4	8.3	6.8	5.6
Previous DSA (September 2014)	8.2	8.4	7.3	8.1	5.8

Source: IMF staff estimates.

1/ For current DSA, average 2020-34. For previous DSA, average 2019-33.

2/ Fiscal-year basis, prior to release of upwardly revised GDP statistics in September 2014.

- **Frontloading of public infrastructure spending.** Projected spending on several key infrastructure projects, including the Nairobi-Mombasa Standard Gauge Railway (SGR; see

<sup>1</sup> 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. 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.

Box 2 and Annex II of the accompanying Staff Report), is more frontloaded than in the previous DSA. 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 path reflects weaker than previously projected goods and services exports in 2014, higher imports related to frontloaded infrastructure spending, and lower imports fuel-related imports to reflect lower oil prices.
- **Revised national accounts.** This DSA incorporates the comprehensive revisions to the national accounts officially released at the end of September 2014. The previous DSA anticipated the upward revisions to GDP of some 20 percent, but with estimates only.

## 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 issuances of the sovereign bond and railway-related loan package, the NPV of public and publicly guaranteed external debt is estimated at 18 percent of GDP at end-2014 and projected to peak at just over 20 percent 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 just over 100 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 shocks that would have the largest impact on external debt dynamics result from a one-time 30 percent nominal depreciation of the exchange rate (similar to the previous DSA) and from a permanent shock to the terms of new public sector loans, increasing the PV of debt to GDP ratio from 18 percent in 2014 to nearly 30 percent (by 2016 for a depreciation shock, between 2023 and 2034 for worse terms), but still well below the relevant threshold (50 percent).
- **The current account balance could improve significantly if recent resource discoveries are confirmed as profitable.** Kenya is currently a net oil importer. However, an oil company has reported estimated discovered resources of at least 600 million barrels of oil equivalent, and oil and gas exploration activities are continuing. If recent discoveries are confirmed as commercially viable, Kenya could become self-sufficient in 3–5 years and a net exporter in 5–

10 years. This represents significant upside potential for the medium to long term compared with the baseline.

**3. The picture is unclear for private sector debt.** Available data from the Foreign Investment Survey suggested nongovernment external debt of some 10 percent of GDP as at end-2011. Stock data for later years are not yet available, nor are reliable flow data for the financial accounts of the balance of payments. However, robust growth in private sector activity and banks' balance sheets suggest that nongovernment external debt is likely on an upward trend. Data gaps should be addressed promptly to limit the risk of an unmonitored buildup of external vulnerabilities outside the government sector.

## PUBLIC DEBT SUSTAINABILITY ANALYSIS

**4. Public debt peaks in 2015 and subsequently remains on a downward trend in the baseline scenario.** In 2014, overall public debt is estimated to have increased markedly to 50 percent of GDP, owing to the sovereign bond issuances<sup>2</sup> in June and December, and initial disbursements of the SGR-related loan from China's Eximbank. Subsequent disbursements are projected to lift public debt to just over 51 percent of GDP in 2015 (Table 3). In subsequent years, on the basis of a primary deficit brought back below 4 percent of GDP in 2016 and gradually brought down thereafter consistent with the EAC convergence criteria—as well as robust real GDP growth boosted by infrastructure spending and easing of bottlenecks—public debt eases below 50 percent of GDP by 2018. In PV terms, the public debt-to-GDP ratio would peak around 46 percent in 2015–16 (Table 4), easing thereafter. The PV of public debt-to-revenue ratio would gradually decline from around 220 percent in 2014–15 to around 190 percent in 2018.

**5. The projected path of public debt is moderate in the Low-Income Country (LIC) DSA framework.**

- The projected debt path would be below the EAC public debt convergence criterion (ceiling of 50 percent in PV terms), and is also well 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, gross financing needs are relatively high, at some 18 percent of GDP in 2014–15.
- 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

<sup>2</sup> 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.

issuances and the commercial component of the SGR have resulted in a significant rise in the share of Kenya's commercial external debt.

**6. The alternative scenarios and bound tests indicate that the projected paths for all debt indicators remain under the relevant thresholds** (Table 4 and Figure 2). The shock with the highest sustained negative impact on debt dynamics is real GDP growth one standard deviation below the historical average. This shock pushes the ratio of PV of debt-to-GDP to 52 percent from 2016 to 2019, above the EAC convergence criterion ceiling; the PV of debt-to-revenue ratio to 232 percent, and the PV of debt service-to-revenue ratio to nearly 30 percent. An unchanged primary balance from 2014 would have broadly similar results; indeed the authorities envisage a higher primary balance in 2015 owing to the SGR project, while planning to reduce the primary balance in the medium term consistent with the convergence criteria for the EAC monetary union.

**7. Other fiscal challenges, reported in the previous DSA, remain pertinent:**

- The devolution process has made concrete progress, but several issues—notably relating to wage bills, the county borrowing framework, and extension of the coverage of fiscal accounts to all county governments—need to be addressed to ensure the medium-term reduction in the primary balance remains within reach.
- Contingent liabilities could represent an additional fiscal risk. The extent of contingent liabilities stemming from Public Private Partnerships (PPPs), mostly in the energy sector, is yet to be fully assessed.

## MAIN FINDINGS AND CONCLUSIONS

**8. This DSA update finds that Kenya continues to face low risk of external debt distress.**

Institutional improvements in recent years have increased the safety margin between Kenya's projected debt and the related indicative thresholds, though the use of a higher discount rate also contributes significantly to the more favorable dynamics. Upward revisions to GDP time series have also lowered the ratios of debt to GDP.

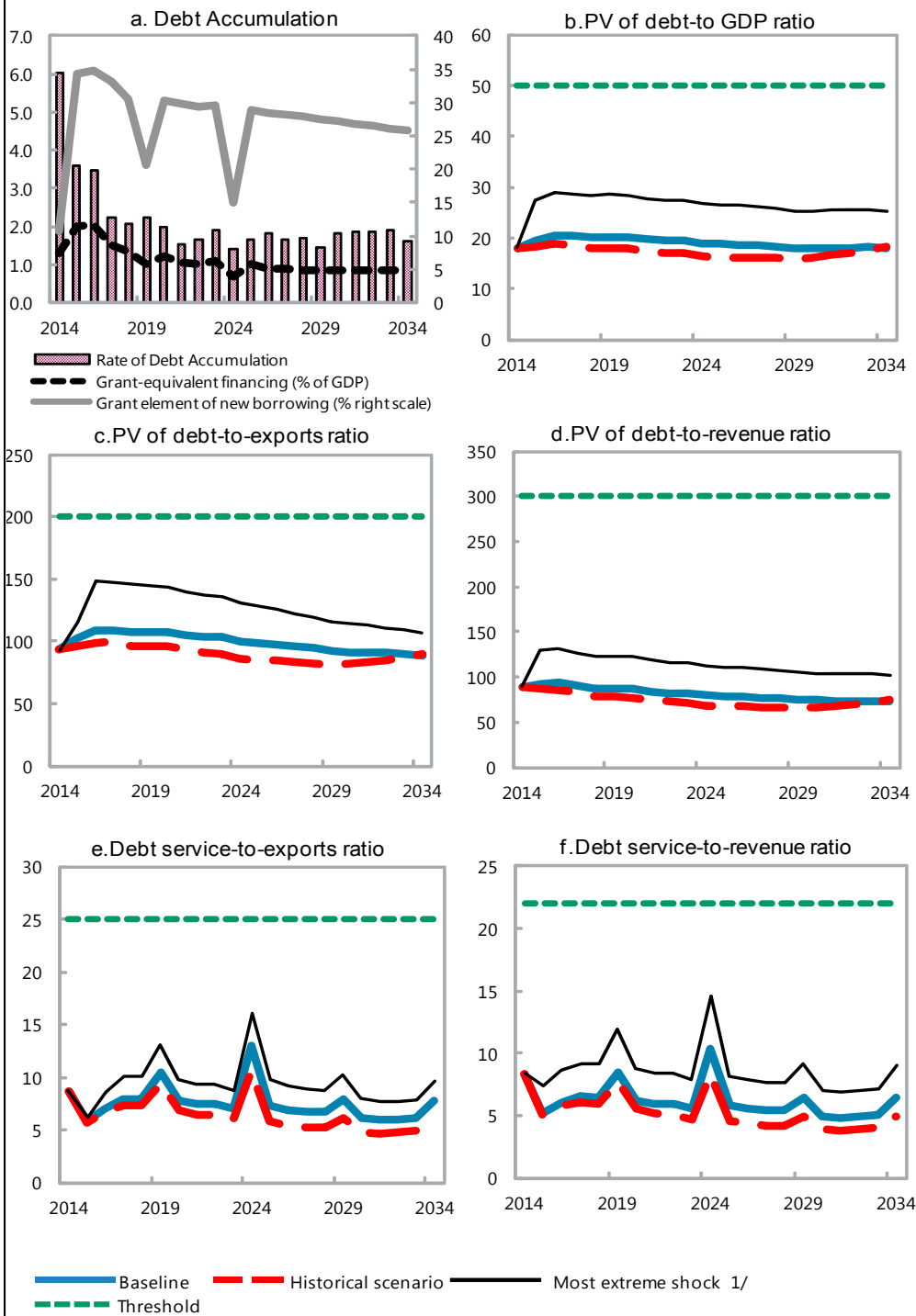
**9. Standard stress tests suggest scenarios in which debt would increase, but remain within sustainable bounds.** Exchange rate shocks and less favorable terms on new public sector loans represent the largest upside risks to external debt. Overall public debt would increase most in the event of significantly lower than anticipated economic growth. 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.

**10. In the near to medium term, risks to debt dynamics are to the upside.** 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, for which data gaps should be addressed as soon as possible in order to limit risks of an unmonitored buildup in external vulnerabilities.

**11. But natural resource discoveries represent positive potential for the medium to long term.** If confirmed, resource exports could significantly improve Kenya's external prospects. This puts a premium on appropriate design for policies to manage Kenya's natural resources.

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

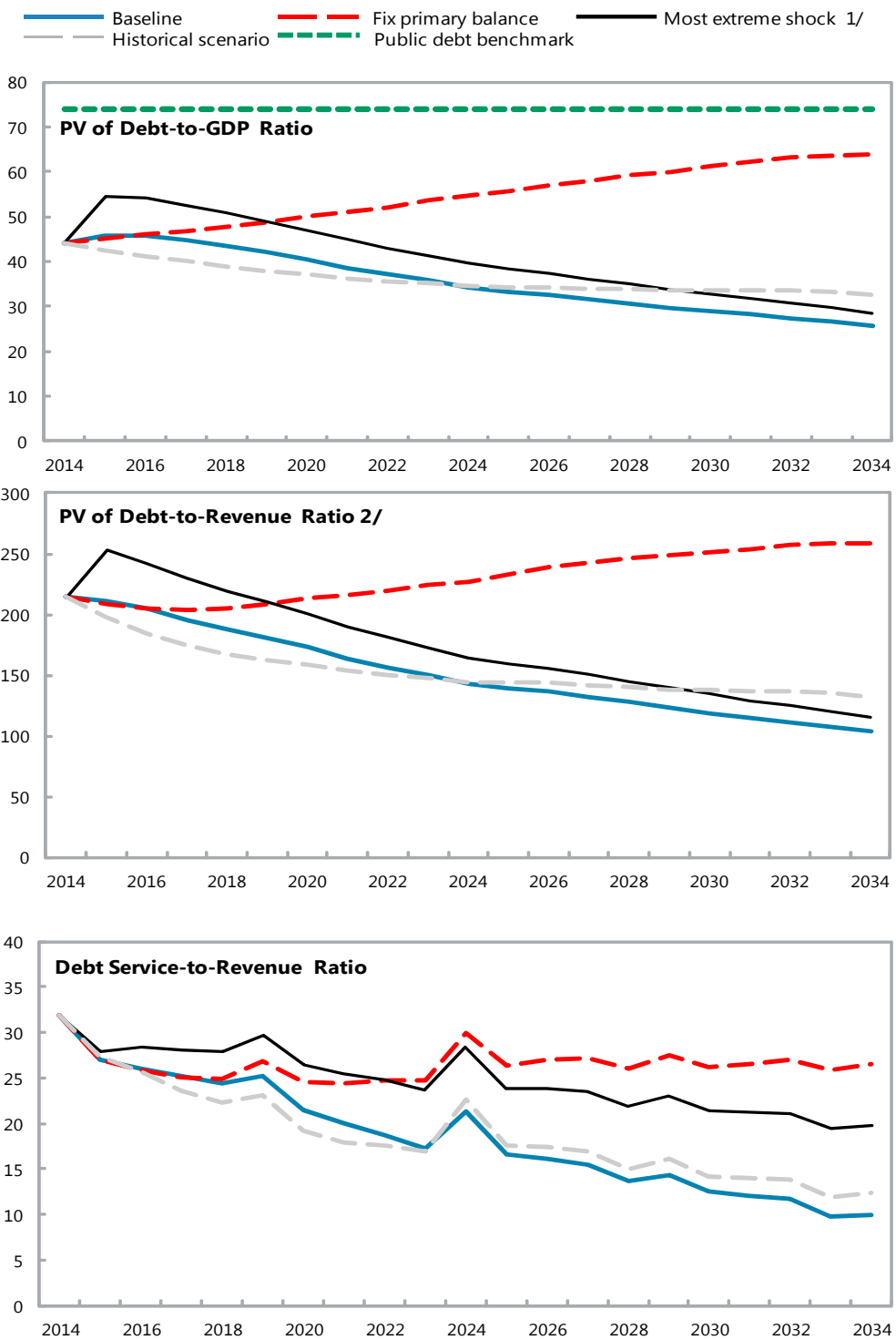


Sources: Country authorities; and staff estimates and projections.

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 Exports 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



**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 2. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario 2014-2034**  
(In percent)

	Projections							2034
	2014	2015	2016	2017	2018	2019	2024	
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	18	19	20	20	20	20	<b>19</b>	18
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	18	18	19	19	18	18	<b>16</b>	18
A2. New public sector loans on less favorable terms in 2014-2034 2	18	20	22	22	23	24	<b>26</b>	28
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	18	20	22	22	22	22	<b>20</b>	19
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	18	20	24	23	23	23	<b>21</b>	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	18	20	22	22	21	22	<b>20</b>	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	18	20	23	22	22	22	<b>20</b>	18
B5. Combination of B1-B4 using one-half standard deviation shocks	18	21	25	24	24	24	<b>22</b>	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	18	27	29	29	28	28	<b>27</b>	25
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	93	102	108	108	108	108	<b>100</b>	88
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	93	95	99	100	96	96	<b>86</b>	90
A2. New public sector loans on less favorable terms in 2014-2034 2	93	104	114	119	123	127	<b>135</b>	139
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	93	101	108	108	107	107	<b>100</b>	88
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	93	115	148	148	146	145	<b>131</b>	107
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	93	101	108	108	107	107	<b>100</b>	88
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	93	107	119	119	118	117	<b>107</b>	90
B5. Combination of B1-B4 using one-half standard deviation shocks	93	109	131	130	129	128	<b>116</b>	96
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	93	101	108	108	107	107	<b>100</b>	88
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	89	92	93	90	88	87	<b>79</b>	73
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	89	86	86	83	78	78	<b>69</b>	74
A2. New public sector loans on less favorable terms in 2014-2034 2	89	94	98	98	100	103	<b>107</b>	115
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	89	95	101	97	95	94	<b>86</b>	79
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	89	97	108	103	100	99	<b>88</b>	75
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	89	94	99	96	93	93	<b>85</b>	78
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	89	97	103	99	96	95	<b>85</b>	74
B5. Combination of B1-B4 using one-half standard deviation shocks	89	99	112	107	104	103	<b>91</b>	79
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	89	130	131	127	123	123	<b>112</b>	103

**Table 2. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario, 2014-20134 (concluded)**  
**Baseline Scenario, 2014-20134 (concluded)**

(In percent)								
<b>Debt service-to-exports ratio</b>								
<b>Baseline</b>	9	6	7	8	8	10	<b>13</b>	8
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	9	6	7	7	7	9	<b>11</b>	6
A2. New public sector loans on less favorable terms in 2014-2034 2	9	6	6	7	7	7	<b>7</b>	9
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	9	6	7	8	8	10	<b>13</b>	8
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	9	6	9	10	10	13	<b>16</b>	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	9	6	7	8	8	10	<b>13</b>	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	9	6	7	8	8	11	<b>13</b>	8
B5. Combination of B1-B4 using one-half standard deviation shocks	9	6	8	9	9	12	<b>14</b>	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	9	6	7	8	8	10	<b>13</b>	8
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	8	5	6	7	6	8	<b>10</b>	6
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	8	5	6	6	6	8	<b>8</b>	5
A2. New public sector loans on less favorable terms in 2014-2034 2	8	5	5	6	6	6	<b>6</b>	7
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	8	5	7	7	7	9	<b>11</b>	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	8	5	6	7	7	9	<b>11</b>	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	8	5	7	7	7	9	<b>11</b>	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	8	5	6	7	7	9	<b>11</b>	7
B5. Combination of B1-B4 using one-half standard deviation shocks	8	5	7	7	7	9	<b>11</b>	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	8	7	9	9	9	12	<b>15</b>	9
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	22	22	22	22	22	22	<b>22</b>	22

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 by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

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.

**Table 3. Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034**  
(In percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Estimate						Projections		
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034
<b>Public sector debt 1/</b>	40.2	41.8	43.9			50.0	51.3	51.7	50.9	49.8	48.4		40.7	31.7
<i>of which: foreign-currency denominated</i>	18.4	19.3	19.4			23.8	25.1	26.4	26.4	26.5	26.5		25.4	24.0
Change in public sector debt	-1.2	1.6	2.2			6.1	1.2	0.5	-0.8	-1.1	-1.4		-1.8	-1.0
Identified debt-creating flows	-1.4	-0.1	1.3			2.7	2.0	0.4	-1.1	-1.2	-1.4		-1.8	-1.4
Primary deficit	1.7	2.3	3.0	0.9	1.7	4.5	5.1	3.8	2.3	1.8	1.4	3.1	0.6	0.9
Revenue and grants	19.5	19.2	19.6			20.7	21.6	22.4	22.9	23.2	23.4		24.0	24.7
<i>of which: grants</i>	0.5	0.4	0.5			0.5	0.5	0.4	0.3	0.3	0.2		0.2	0.1
Primary (noninterest) expenditure	21.1	21.4	22.7			25.1	26.7	26.1	25.2	25.1	24.7		24.6	25.6
Automatic debt dynamics	-3.1	-2.3	-1.7			-1.7	-3.1	-3.4	-3.4	-3.0	-2.8		-2.4	-2.3
Contribution from interest rate/growth differential	-2.6	-1.3	-1.0			-1.5	-2.5	-2.8	-2.9	-2.6	-2.5		-2.0	-1.9
<i>of which: contribution from average real interest rate</i>	-0.2	0.4	1.3			0.7	0.7	0.6	0.5	0.7	0.8		0.7	0.2
<i>of which: contribution from real GDP growth</i>	-2.4	-1.7	-2.3			-2.2	-3.2	-3.4	-3.4	-3.3	-3.2		-2.7	-2.1
Contribution from real exchange rate depreciation	-0.5	-1.0	-0.7			-0.3	-0.6	-0.6	-0.5	-0.4	-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	0.2	1.6	0.8			3.4	-0.7	0.1	0.3	0.1	0.0		0.0	0.3
<b>Other Sustainability Indicators</b>														
<b>PV of public sector debt</b>	...	...	38.0			44.2	45.6	45.9	44.8	43.5	42.1		34.3	25.6
<i>of which: foreign-currency denominated</i>	...	...	13.5			18.0	19.4	20.5	20.3	20.2	20.2		18.9	17.9
<i>of which: external</i>	...	...	13.5			18.0	19.4	20.5	20.3	20.2	20.2		18.9	17.9
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	12.5	13.3	14.7			17.6	17.8	16.5	14.7	14.0	13.5		10.0	5.6
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	193.6			214.2	211.4	205.1	195.6	187.3	180.3		142.6	103.7
PV of public sector debt-to-revenue ratio (in percent)	...	...	198.7			219.9	216.2	208.8	198.3	189.4	181.9		143.7	104.1
<i>of which: external 3/</i>	...	...	70.5			89.5	92.0	93.3	89.9	87.7	87.4		79.4	72.9
Debt service-to-revenue and grants ratio (in percent) 4/	25.9	27.7	28.7			31.8	27.0	26.0	25.2	24.4	25.2		21.3	9.9
Debt service-to-revenue ratio (in percent) 4/	26.5	28.4	29.4			32.7	27.6	26.5	25.5	24.6	25.4		21.5	9.9
Primary deficit that stabilizes the debt-to-GDP ratio	2.9	0.7	0.9			-1.7	3.9	3.3	3.1	2.9	2.8		2.4	1.9
<b>Key macroeconomic and fiscal assumptions</b>														
Real GDP growth (in percent)	6.1	4.5	5.7	5.1	2.2	5.3	6.9	7.2	7.1	7.0	7.0	6.7	6.8	7.0
Average nominal interest rate on forex debt (in percent)	1.2	1.5	1.4	1.5	0.5	1.2	2.0	2.5	2.6	2.8	2.8	2.3	2.8	2.6
Average real interest rate on domestic debt (in percent)	-0.1	2.3	5.9	1.5	3.7	3.5	2.4	1.9	1.8	2.4	2.7	2.4	2.5	-0.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.9	-5.9	-3.7	-4.5	7.6	-1.5	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.8	9.3	5.7	8.6	3.8	6.7	6.6	6.5	6.4	6.0	5.5	6.3	5.1	5.1
Growth of real primary spending (deflated by GDP deflator, in percent)	1.9	5.9	11.9	2.0	3.9	16.5	13.6	4.8	3.4	6.4	5.4	8.4	7.5	8.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	10.7	34.2	34.9	33.1	30.6	20.6	27.4	15.0	25.7

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 2014-2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	44	46	46	45	44	42	34	26
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	44	43	41	40	39	38	35	32
A2. Primary balance is unchanged from 2014	44	45	46	47	48	49	55	64
A3. Permanently lower GDP growth 1/	44	46	47	46	45	44	40	44
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	44	48	52	52	52	52	50	49
B2. Primary balance is at historical average minus one standard deviations in 2015-201	44	43	43	42	41	40	32	25
B3. Combination of B1-B2 using one half standard deviation shocks	44	44	44	44	44	44	41	40
B4. One-time 30 percent real depreciation in 2015	44	53	52	50	49	47	38	29
B5. 10 percent of GDP increase in other debt-creating flows in 2015	44	54	54	53	51	49	40	29
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	214	211	205	196	187	180	143	104
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	214	197	185	175	167	162	144	131
A2. Primary balance is unchanged from 2014	214	209	205	204	205	209	227	258
A3. Permanently lower GDP growth 1/	214	213	208	200	194	190	168	177
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	214	223	232	228	225	223	206	197
B2. Primary balance is at historical average minus one standard deviations in 2015-201	214	201	191	183	176	169	134	99
B3. Combination of B1-B2 using one half standard deviation shocks	214	203	195	192	189	187	171	161
B4. One-time 30 percent real depreciation in 2015	214	245	233	220	209	200	158	119
B5. 10 percent of GDP increase in other debt-creating flows in 2015	214	252	242	230	219	210	164	116
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	32	27	26	25	24	25	21	10
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	32	27	26	24	22	23	23	12
A2. Primary balance is unchanged from 2014	32	27	26	25	25	27	30	27
A3. Permanently lower GDP growth 1/	32	27	26	26	25	26	24	17
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	32	28	28	28	28	30	28	20
B2. Primary balance is at historical average minus one standard deviations in 2015-201	32	27	25	24	23	24	21	9
B3. Combination of B1-B2 using one half standard deviation shocks	32	28	27	24	23	25	25	16
B4. One-time 30 percent real depreciation in 2015	32	28	29	28	28	30	28	16
B5. 10 percent of GDP increase in other debt-creating flows in 2015	32	27	29	30	29	29	23	11

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.



INTERNATIONAL MONETARY FUND



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International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Approves US\$497.1 Million Stand-by Arrangement and US\$191.2 Million Stand-by Credit Facility for Kenya**

On February 2, 2015, the Executive Board of the International Monetary Fund (IMF) approved a SDR 352.82 million (about US\$497.1 million) Stand-By Arrangement and a SDR 135.7 million (about US\$191.2 million) arrangement under the Stand-By Credit Facility<sup>1</sup> (SBA/SCF) for Kenya for a combined SDR 488.52 million (about US\$688.3 million or 180 percent of Kenya's quota).

The one-year arrangements would provide a policy anchor for continued macroeconomic and institutional reforms, and help to mitigate the impact of potential exogenous shocks while these reforms are being pursued, thereby supporting continued strong growth and durable poverty reduction.

The Executive Board's decision makes available a total of SDR 379.96 million immediately (about US\$535.3 million), and the remainder in two equal tranches upon completion of semi-annual program reviews. The authorities plan to treat the arrangements as precautionary, and do not intend to draw on the SBA/SCF unless external shocks lead to an actual balance-of-payment need.

Following the Executive Board's discussion on Kenya, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"The Kenyan authorities' prudent macroeconomic policies and major institutional and economic reforms of recent years have contributed to macroeconomic stability, higher growth, and increased external buffers. Nonetheless, the economy remains vulnerable to shocks arising from Kenya's growing integration into global markets, security concerns, and extreme weather events. In this context, the new arrangements with the Fund provide a policy anchor for continued reforms, and would mitigate the impact of shocks if they materialize, supporting continued strong growth and poverty reduction.

"The planned scaling up of infrastructure investments under the authorities' economic program will lift Kenya's growth trajectory by removing bottlenecks to private sector activity

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<sup>1</sup> The SCF provides financing to low-income countries on concessional terms.

and fostering regional integration, provided public debt remains on a sustainable path. In this regard, the authorities' commitments to containing current spending and mobilizing additional revenue are welcome.

“Continued reforms to public finance management, in particular the full implementation of the treasury single account, the adoption of a borrowing framework for counties, and the close monitoring of contingent liabilities, will be key to containing fiscal risks in the period ahead.

“The Central Bank of Kenya (CBK) has made remarkable progress in bringing inflation toward the mid-point of its target range, aided in part by falling energy prices. Nevertheless, the CBK should remain vigilant and act as needed to head off any pressure from rapid credit growth and the envisaged scaling up of infrastructure spending.

“The authorities are appropriately taking steps to strengthen the prudential oversight of a rapidly growing financial sector. Implementing prudential guidelines for bank capital, strengthening the CBK's stress-testing framework, and improving the supervision of expanding cross-border operations will be critical to boost the soundness of domestic banks.

“The authorities should also continue improving the quality of economic statistics, especially as regards the balance of payments, social indicators, and the labor market. More comprehensive and timely data in these areas would facilitate the policymakers' assessment of Kenya's progress in reducing remaining vulnerabilities.”

## **Annex**

### **Recent economic developments**

Real GDP growth remains robust, supported by strong credit growth and a dynamic investment environment. The economy expanded by 5.3 percent year-on-year in real terms during the first three quarters of 2014, reflecting strong activity in construction, manufacturing and retail trade. However, poor rains have constrained agriculture growth, and security concerns have adversely affected tourism. Annual growth is expected to remain above 5.3 percent in 2014 reflecting the increase in geothermal energy generation capacity and the commencement of activities related to the Mombasa-Nairobi standard gauge railway project.

Inflation has begun to ease. After exceeding the authorities' target range ( $5\pm 2.5$  percent) in July and August, headline inflation continued to decline and reached 6.0 percent in December. This reflects lower electricity costs as a result of Kenya's investment in geothermal power generation coming on stream as well as lower international oil prices.

Strong private inflows and the proceeds from Kenya's international bond placements lifted international reserve cover. Gross international reserves stood at US\$ 8.0 billion (4.4 months of prospective imports) at end-December 2014. In December 2014, the authorities re-opened their June debut sovereign issuance, raising an additional US\$750 million split between five-year (US\$250 million) and 10-year (US\$500 million) maturities, with yields about 100 basis



points lower than at original issuance. The current account deficit remains high, reflecting strong capital-goods imports, though mitigated by the decline in oil prices.

Overall market conditions are broadly favorable. The Kenyan shilling remains on a broadly stable path of gradual depreciation vis-à-vis the US dollar, largely reflecting developments in international financial markets. In recent months, however, the interbank rate deviated, at times significantly, from the policy rate, reflecting changes in liquidity conditions, with volatility explained by devolution-related flows of government deposits at the Central Bank of Kenya.

Kenyan banks continue to expand domestic credit, provide access to new borrowers, and increase their operations beyond Kenyan borders. The banking sector remains profitable and well-capitalized, but provisions are lately lagging behind a pickup in NPLs, which moderated slightly in September (5.4 percent of total loans). Credit growth (25 percent) continues to outpace deposit growth (20 percent) reflecting a more intensive use of medium-term mostly concessional foreign currency lines for small and medium enterprises (SME) project financing. Financial inclusion has increased, with 75 percent of the population having access to formal or informal financial services at end-2013.

### **Program summary**

The new precautionary Fund arrangements would provide a policy anchor for continued macroeconomic and institutional reforms, and help to mitigate the impact of potential exogenous shocks while these reforms are being pursued, thereby supporting continued strong growth and durable poverty reduction. The authorities' economic program focuses on the following policies:

- Maintaining a sustainable medium-term debt path consistent with regional convergence commitments, while preserving fiscal space to implement the ambitious public investment program aimed at (i) supporting economic development; (ii) minimizing vulnerabilities to weather-related shocks; and (iii) reducing infrastructure bottlenecks;
- Taking decisive steps to strengthen public financial management, including to contain fiscal risks from Public Private Partnerships (PPPs) and the devolution process;
- Further modernizing the monetary policy framework, to facilitate the transition to a fully-fledged inflation targeting framework;
- Improving financial oversight to address financial sector vulnerabilities stemming from rapid credit growth and fast expansion of cross-border operations by Kenyan banks;
- Upgrading data quality to strengthen policy making, address gaps, and facilitate transition to frontier/emerging market status.

## Kenya: Selected Economic Indicators, 2012/13-2018/19<sup>1</sup>

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Prel.	Projections				
	(Annual percentage change, unless otherwise indicated)						
<b>Output, prices, and exchange rate</b>							
Real GDP	5.1	5.5	6.1	7.0	7.1	7.0	7.0
GDP deflator	7.4	6.2	6.6	6.5	6.4	6.2	5.7
CPI (period average)	4.6	7.1	6.0	5.2	5.2	5.1	5.0
CPI (end of period)	4.9	7.4	5.1	5.3	5.2	5.1	5.0
Core inflation (period average) <sup>2</sup>	4.8	6.1	5.0	5.3	5.2	5.1	5.0
Exports volume	6.2	3.2	6.4	9.7	9.4	9.7	10.7
Imports volume	6.8	3.5	14.7	10.5	8.8	9.5	8.7
Terms of trade (deterioration, -)	-4.2	-7.5	21.6	6.6	-3.3	-1.4	-1.5
Exchange rate (Kenyan shilling/US\$)	84.6	87.2	.	.	.	.	.
Real effective exchange rate (depreciation, -)	3.6	1.9	.	.	.	.	.
<b>Money and credit</b>							
Broad money (M3)	14.2	18.2	13.9	19.8	14.5	16.2	15.5
Reserve money	11.7	12.6	11.3	14.9	13.8	15.0	14.5
Credit to non-government sector	12.7	25.8	17.7	15.6	14.7	14.6	14.6
Policy rate	8.5	8.5	.	.	.	.	.
M3/GDP (percent)	40.4	42.6	42.9	45.1	45.3	46.3	47.3
NPLs (percent of total gross loans)	5.3	5.8	.	.	.	.	.
(Percent of GDP, unless otherwise indicated)							
<b>Central government budget</b>							
Total revenue and grants	19.3	19.8	21.1	21.8	22.7	23.0	23.3
Tax revenues	15.6	16.9	17.9	18.7	19.5	19.9	20.1
Non-tax revenues	3.2	2.4	2.7	2.7	2.8	2.9	2.9
Grants	0.5	0.5	0.5	0.4	0.4	0.3	0.2
Expenditure	24.8	25.7	28.7	29.5	27.7	27.6	27.5
Current <sup>3</sup>	17.9	19.4	19.5	19.4	19.1	19.0	18.9
Capital <sup>3</sup>	6.6	6.3	8.9	9.9	8.4	8.3	8.4
Primary balance	-2.5	-3.5	-5.1	-5.1	-2.6	-2.1	-1.7
Excluding SGR related spending	-2.5	-3.5	-3.7	-3.0	-2.0	-1.7	-1.5
Overall balance	-5.5	-5.9	-7.6	-7.6	-5.0	-4.5	-4.1
Excluding SGR related spending	-5.5	-5.9	-6.2	-5.5	-4.4	-4.2	-4.0
Excluding grants	-6.0	-6.4	-8.1	-8.1	-5.3	-4.8	-4.4
<b>Public debt<sup>4</sup></b>							
Public gross nominal debt	41.1	47.1	49.8	50.8	50.3	49.5	48.6
Public net nominal debt	37.5	43.0	46.4	48.8	48.2	47.4	46.5
of which: external public debt	17.8	21.6	23.2	25.2	25.3	25.5	25.9
Public gross debt, PV	.	41.1	44.9	45.6	45.1	43.8	42.4
Gross domestic debt	23.3	25.4	26.6	25.6	24.9	24.0	22.7
<b>Investment and saving<sup>5</sup></b>							
Investment	20.7	21.2	24.7	26.1	25.1	25.4	25.6
General government	6.6	7.0	9.8	11.1	9.8	10.0	10.1
Nongovernment	14.1	14.2	15.0	15.1	15.2	15.4	15.5
Saving	12.3	12.6	16.7	18.9	18.2	18.2	18.4
General government	0.2	1.7	2.4	3.2	4.3	5.0	5.5
Nongovernment	12.1	10.9	14.3	15.7	13.9	13.3	13.0
<b>External sector</b>							
Exports (goods and services)	20.6	19.4	19.2	19.0	18.8	18.7	18.7
Imports (goods and services)	34.3	32.9	31.8	30.9	30.6	30.7	30.5
Current account balance (including grants)	-8.4	-8.6	-8.1	-7.3	-6.9	-7.2	-7.2
Gross international reserves							
In billions of US\$	6.1	8.6	7.8	8.7	9.5	10.6	12.0
In months of next year imports	3.8	5.1	4.3	4.3	4.2	4.3	4.4
<b>Memorandum items:</b>							
<b>GDP at current market prices</b>							
Billion of Kenyan shillings	4506.2	5050.3	5713.4	6512.3	7424.4	8438.2	9545.4
US\$ billion	52.8	58.1	63.9	70.9	79.2	88.2	97.8
GDP per capita (nominal US\$)	1279.1	1369.8	1468.4	1586.4	1726.6	1873.8	2024.4

Sources: Kenyan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal years are from July 1 to June 30.

<sup>2</sup> Excluding food and fuel.

<sup>3</sup> From 2013/14, current spending includes total county transfers to counties and capital spending excludes capital spending of counties.

<sup>4</sup> Excludes guaranteed debt and other contingent liabilities.

<sup>5</sup> Reflects September 2014 national account rebasing.

**Statement by Chileshe Mpundu Kapwepwe, Executive Director for Kenya  
and Rose Ngugi, Senior Advisor  
February 2, 2015**

On behalf of the Kenyan authorities we thank staff for their constructive engagement during the negotiation of the proposed program for Kenya.

**The Kenyan authorities are requesting for a precautionary program under SBA-SCF arrangements to provide a buffer against exogenous shocks, and a policy anchor for their institutional and economic reforms.** They are implementing an ambitious economic transformation agenda aimed at raising the efficiency and productivity of the economy. With sustained commitment to prudent macroeconomic policies and reform agenda, the economy has maintained macroeconomic stability and growth is resilient. However, the economy remains vulnerable to external and domestic shocks, which have the potential to reverse the gains made thus far, and derail the implementation of the transformation agenda. The proposed program therefore aims to strengthen macroeconomic stability, deepen structural and governance reforms, improve security, and support devolution process. The authorities are committed to address these vulnerabilities and unless a balance of payment financing need actualizes, they are not planning to draw on the arrangements.

*Economic performance and prospects*

**GDP growth is resilient but the risks to the outlook are tilted to the downside.** Growth is projected to be slower in 2014 as compared to 2013 due to poor rains which have affected agricultural activity, and the yet to recover tourism sector due to issuance of travel advisories. The economy is projected to grow by 6.9 percent in 2015 assuming normal weather prevails. In the medium term growth is expected to reach 7 percent as the authorities continue to address the prevailing constraints to growth. This includes; accelerating infrastructure development, reducing cost of energy through increased geothermal generation and development of the oil and gas sector, improving security situation, supporting regional integration, enhancing access to finance, and providing opportunities for the SMEs.

**Macroeconomic stability prevails.** Inflation on average has remained within the government target range of (5±2.5 percent) in the last 12 months. Recent declines in inflation are attributed to lower oil and electricity prices, and the stability of the shilling against major foreign currencies. Foreign reserves have on average remained above 4.5 months of import cover since December 2014, supported by foreign exchange inflows through remittances, increased foreign investors participation in the Nairobi Securities Exchange market, and the successful issuance and reopening of the sovereign bond. However, the current account deficit is high given the widening merchandise account due to increased capital goods imports. Bank lending rates have on average declined since the Kenya Banks Reference Rate (KBRR) became effective in July, 2014. The recent downward revision of KBRR from 9.13 percent to 8.54 percent on January 14<sup>th</sup> 2015 is expected to support this trend.

### *Fiscal policy and reforms*

**The authorities are committed to fiscal prudence to ensure debt sustainability as they implement the infrastructure projects to expand the capacity for economic activity.**

They will continue to enhance resource mobilization by broadening the tax base and deepening tax administration reforms. Further, the authorities aim to improve efficiency, and enhance effectiveness in public resource utilization and budget execution. Their focus is to strengthen public finance management, and reduce fiscal risks from PPPs and the devolution process. Moreover, they intend to adhere to the fiscal responsibility principle which requires 30:70 ratios of development and recurrent expenditures in the total expenditure, respectively, while targeting project implementation performance benchmark of at least 80 percent. Further, to address the growing wage bill, the authorities are taking measures to have a leaner, efficient and responsive public service covering both the national and county levels of government. The operationalisation of the Treasury Single Account is also underway.

**The authorities are preparing to implement the parastatal reforms to strengthen governance, improve accountability, and reduce budgetary transfers for current spending.**

To facilitate the process, two bills are being prepared for parliamentary debate and enactment. These are; the Government Owned Entities Bill 2014 which is meant to ensure parastatals adopt a leaner and more efficient management structure, and the National Sovereign Wealth Fund Bill 2014 which seeks to establish a wealth fund and the framework for managing the new found oil and mineral wealth that is consistent with the Public Finance Management Act (2012).

**A successful devolution process is a priority.** Efforts are being made to address the challenges being experienced at these initial stages of implementing a devolved government system. To strengthen public finance system at the county level, the national government will continue to provide necessary support to build capacity of county governments in public finance management and also in improving revenue collection. Likewise, the county governments are expected to adhere to fiscal responsibility principals set out in the PFM Act. In addition, the authorities are committed to adequately staff the Intergovernmental Fiscal Relations Department and make it fully operational, and also complete the audit of outstanding county assets and liabilities.

### *Monetary and financial policies*

**To enhance the effectiveness of monetary policy, the authorities are pushing ahead with efforts to modernize the monetary policy framework, and further strengthen central bank operational independence.**

As we noted in our previous Buff statement, Kenya is serving as a pilot project in the IMF project on "*Monetary and Exchange rate policies for LICs*" where IMF is collaborating closely with the central bank to modernize the practice of monetary policy. Through the project Central Bank of Kenya (CBK) staff has received training on Forecasting and Policy Analysis System (FPAS) which improves the authorities' understanding of monetary transmission mechanism and shocks hitting the economy.

Accordingly, CBK is in the process of institutionalizing this framework by setting up an inflation modeling and forecasting unit. Furthermore, there are ongoing efforts to improve liquidity forecasting, by strengthening coordination between the national treasury and central bank, and enhancing flexibility in the use of monetary instruments.

**Financial stability and development is a key focus in deepening the financial sector reforms.** Accordingly, the authorities aim to strengthen the prudential oversight framework and effectively manage risks associated with rapid credit growth, rising cross-border operations, and expansion of banks activities into holding groups.

*Enhancing business environment and competitiveness*

**Reducing cost of doing business is important to encourage private sector innovation, entrepreneurship and business expansion.** In this regard, the authorities are implementing a business regulatory reform agenda focused on improving Kenya's ranking in the World Bank ease of doing business indicators. In addition, to improve further the security situation, the authorities are building on the on-going security reforms and modernization program. Further, the authorities aim to improve productivity and enhance overall competitiveness by investing in transport and logistics network. This will include improving efficiency of air and sea ports; increasing energy production; and widening the coverage of road and rail networks.

*Conclusion*

**The authorities are determined to foster strong inclusive growth in a stable macroeconomic environment as part of the strategy to achieve economic transformation.** However, maintaining macroeconomic stability and sustaining the reform agenda is a challenge considering that domestic and external vulnerabilities persist. The request for the precautionary arrangements is thus critical to secure the gains made so far and continue the momentum to implement the reform agenda geared to enhancing strong growth, job creation, and poverty reduction. The authorities value their engagement with the Fund and look forward to continued international community support for their transformation agenda.