INTERNATIONAL MONETARY FUND

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KENYA

November 2024

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR REDUCTION OF ACCESS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR REPHASING OF ACCESS UNDER THE ARRANGEMENTS, MODIFICATIONS OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KENYA

In the context of the Staff Report Seventh and Eighth Reviews Under the Extended Fund Facility and Extended Credit Facility Arrangements, Requests for Reduction of Access, Augmentation and Rephasing of Access Under the Arrangements, Modifications of Performance Criteria, Waiver of Nonobservance of Performance Criteria, and Review Under the Resilience and Sustainability Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a Statement by the Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 30, 2024, following the discussions that ended on September 16, 2024, with the officials of Kenya on economic developments and policies underpinning the IMF Arrangements under the Extended Fund Facility, Extended Credit Facility, and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the Staff Report was completed on October 18, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **World Bank Assessment Letter Update** for the **Resilience and Sustainability Facility**
- A **Statement by the Executive Director** for Kenya.

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PRESS RELEASE

PR24/398

IMF Executive Board Concludes the Seventh and Eighth Reviews under the Extended Fund Facility and Extended Credit Facility and Review under the Resilience and Sustainability Facility Arrangement with Kenya

FOR IMMEDIATE RELEASE

- The Executive Board's decision to complete the reviews enables a combined disbursement of around US$606 million to support the authorities' efforts to rebuild fiscal and external buffers, including to enhance resilience to climate shocks.
- Resolution of the exceptional external financing pressure earlier this year has revived market confidence, aided stabilization of the shilling, and enabled a faster buildup of foreign exchange reserves. However, large revenue shortfalls in FY2023/24 and pushback against revenue measures owing to governance concerns pose a challenge to the ongoing fiscal consolidation efforts.
- The Kenyan authorities face a difficult balancing act of boosting domestic revenues to protect critical spending in priority areas while meeting heavy debt service obligations. Delivering on this would call for improving governance and transparency to restore public trust in the effective use of public resources.

Washington, DC – **October 30, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded today the seventh and the eighth reviews under the extended arrangement under the Extended Fund Facility (EFF) and the arrangement under the Extended Credit Facility (ECF), approved in April 2021, and a review under the Resilience and Sustainability Facility (RSF) arrangement, approved in July 2023, with Kenya.

The EFF/ECF arrangements aim to support Kenya's program to address debt vulnerabilities while safeguarding resources for priority social and developmental needs; build resilience to shocks; improve governance and transparency; and support broader economic reforms to realize the country's medium-term potential. The RSF arrangement aims to reinforce Kenya's strong efforts to address climate-related challenges and catalyze further private climate finance.

The Executive Board's decision allows for the immediate disbursements of SDR365.28 million (about US$485.8 million) under the EFF/ECF arrangements and SDR90.47 million (about US$120.3 million) under the RSF arrangement. In addition, following the resolution of exceptional financing needs earlier this year, the Board approved a reduction in the total access under the EFF/ECF arrangements from exceptional access, approved in January 2024 (see PR24/12), to within the normal access limits and a rebalancing of access toward the zero-interest ECF arrangement. Together with the recent changes to the IMF's charges and surcharges policy, these adjustments would lower Kenya's interest payments to the IMF.

Under the EFF/ECF arrangements, total IMF financial commitment stands at SDR2.714 billion (about US$3.61 billion), of which SDR2.343 billion (about US$3.12 billion) has been approved for disbursement. For the RSF arrangement, the corresponding amounts are SDR407.1

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million (about US$541.3 million) and SDR135.70 million (about US$180.4 million), respectively.

In completing the reviews, the Executive Board recognized that the resolution of the exceptional external financing pressure earlier this year has revived market confidence, supporting shilling stabilization and facilitating faster buildup of reserves. However, the fiscal consolidation efforts have faced headwinds following a sizable tax revenue shortfall in FY2023/24 and withdrawal of the 2024 Finance Bill after widespread public protests. Nevertheless, the EFF/ECF program has delivered on reducing inflation, strengthening external buffers, and stabilizing the exchange rate. In addition, the Board approved waivers of non-observance for the end-December 2023 tax revenue and the end-June 2024 primary budget balance and tax revenue targets based on the corrective action taken through the passage of the Supplementary FY2024/25 Budget, which together with medium-term fiscal consolidation would help reduce debt vulnerabilities, a core objective of the program. The Board also completed review under the RSF arrangement and approved the disbursements associated with two reform measures implemented.

The Board emphasized that sustaining progress requires improving the quality of fiscal adjustment, addressing fiscal and financial sector vulnerabilities, advancing governance reforms, and implementing the structural agenda, including climate-related reforms. Continued efforts to support the vulnerable population, broadening the socio-political support for reforms, and ensuring agile policymaking will also be necessary.

At the conclusion of the Executive Board's discussion, Ms. Gita Gopinath, First Deputy Managing Director of the IMF and Acting Chair, made the following statement:

"Kenya's economy remains resilient, with growth above the regional average, inflation decelerating, and external inflows supporting the shilling and a buildup of external buffers, despite a difficult socio-economic environment.

"The EFF/ECF and the RSF arrangements continue to support the authorities' efforts to anchor macroeconomic stability, reduce debt vulnerabilities, promote reforms, and mitigate climate-related risks.

"Performance since the last reviews of these arrangements has weakened. While accumulation of foreign exchange reserves and inflation were better than expected, the fiscal performance fell significantly short of the targets. The revenue and export underperformances increased debt vulnerabilities. Implementation of several reforms was also delayed.

"In this context, a difficult adjustment path lies ahead. A credible fiscal consolidation strategy remains central to addressing debt vulnerabilities while protecting social and development spending. Reforms to make the tax regime more efficient, equitable, and progressive as well as strengthening accountability, transparency, and efficiency of public finances will help garner political and societal support for reforms. Clearly communicating the necessity and benefits of the reforms is paramount.

"Given the elevated risks around the fiscal strategy, policymaking needs to be agile. Contingency planning remains critical, with policies adapting to evolving outcomes to safeguard stability and ensure that program objectives continue to be met.

"The Central Bank of Kenya's decisive actions have supported price stability and external sustainability, including through institutional changes to improve the functioning of the

monetary policy operational framework and the money and foreign exchange markets. Exchange rate flexibility is vital to improve resilience to external shocks and competitiveness. Addressing banks' deteriorating asset quality and emerging risks requires close monitoring and strengthened oversight.

"Fast-tracking key reforms would raise medium-term potential. In particular, addressing deficiencies in governance, anti-corruption frameworks, and AML/CFT, including leveraging the requested governance diagnostic, is essential for garnering public trust and enhancing policy credibility, and for attracting fresh investments, including finance to build climate resilience."

Kenya: Selected Economic Indicators, 2021–2026

	2021	2022	2023	2024	2025	2026
	Act.	Act.	Act.	Est./ Proj.	Proj.	Proj.
Output						
Real GDP growth (percent)	7.6	4.9	5.6	5.0	5.0	5.0
Prices						
Inflation –average (percent)	6.1	7.6	7.7	5.0	5.3	5.1
Central government finances (fiscal year)[1]						
Total revenue (percent of GDP)	16.1	17.5	16.7	17.2	18.0	18.7
Expenditure and net lending (percent of GDP)	24.4	23.7	22.5	22.8	22.3	22.7
Overall fiscal balance (percent of GDP)	–8.3	–6.2	–5.6	–5.3	–4.3	–4.0
Public debt						
Gross nominal debt (percent of GDP)	68.1	67.8	73.1	67.0	68.8	68.8
Gross external debt (percent of GDP)	34.7	34.6	40.4	34.9	37.0	37.4
Money and Credit (end of period)						
Broad money (percent change)	6.1	7.1	21.3	5.6	10.3	10.2
Credit to private sector (percent change)	8.6	12.5	13.9	3.3	12.4	11.2
Policy rate, end-of-period (percent)	7.0	8.75	12.50	…	…	…
Balance of payments						
Current account balance (percent of GDP)	–5.2	–5.0	–4.0	–3.9	–4.0	–4.1
Gross international reserves (in months of imports)	4.7	4.4	3.8	4.1	4.1	4.2
Exchange rate						
REER (average percent change; positive = appreciation)	–2.6	2.2	–8.3	…	…	…

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

[1] Based on fiscal year (i.e., 2025 represents fiscal year 2024/25, covering July 2024–June 2025).

INTERNATIONAL MONETARY FUND

KENYA

October 18, 2024

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR REDUCTION OF ACCESS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR REPHASING OF ACCESS UNDER THE ARRANGEMENTS, MODIFICATIONS OF PERFORMANCE CRITERIA, WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. Kenya is confronted with the need to chart a course that attends directly to the recent public outcry. The widespread protests that started in June and resulted in tragic loss of lives and injuries were triggered by the authorities' efforts to correct a large tax revenue shortfall in FY2023/24 through revenue raising proposals in the 2024 Finance Bill, some of which were unpopular or seen as regressive. The protests forced the President to withdraw the Bill, introduce significant spending cuts through a Supplementary Budget in July, and reconstitute the Cabinet in August. Persistent difficulties in mobilizing revenue coupled with spending rigidities have led to a further accumulation of pending bills, and necessitated deep cuts in development spending, with potential for knock-on effects on growth and debt sustainability. Against this backdrop, preceded by large exogenous shocks (COVID-19, global developments impacting import price and affordable access to market finance, and severe multi-season droughts), the authorities face a complex and difficult balancing act: meeting critical spending needs for priority areas (social programs, health, and education), servicing large upcoming debt obligations, and boosting domestic revenues. Earlier in the year, Kenya addressed the exceptional balance of payments (BoP) needs associated with repayment of the June 2024 US$2 billion Eurobond, boosting market confidence that helped strengthen the shilling and build reserves. Meanwhile, fiscal pressures continue, including from uncertainty surrounding the constitutionality of the 2023 Finance Act on which the Supreme Court's decision is awaited.

Macroeconomic developments. Real GDP growth in 2023 (5.6 percent) was stronger than the program baseline but slowed to 4.8 percent y/y in the first half of 2024. Growth has been largely driven by a recovery in the agriculture sector after two years of droughts. Headline inflation has eased below the target, but core inflation is sticky. The central bank has lowered the policy rate in two steps by a total of 100 basis points since August. The external current account deficit has narrowed on the back of robust diaspora remittances and weak imports, despite exports underperforming. The planned fiscal consolidation for FY2023/24 did not materialize due to a tax revenue shortfall of close to 2 percent of GDP. The impact on the fiscal deficit from the withdrawal of the 2024 Finance Bill that aimed to correct the shortfall was only partially offset through additional spending cuts under a Supplementary FY2024/25 Budget, approved in July, keeping domestic borrowing needs and costs elevated. This combined with larger nonconcessional external borrowing in 2024 than programmed at the time of sixth ECF/EFF reviews have led to an increase in the debt service burden. The banking sector remains profitable, but asset quality has worsened.

Program performance. Since the sixth EFF/ECF reviews program performance has significantly weakened amid fiscal policy slippages and delays in reforms. Four out of the six end-December 2023 quantitative performance criteria (QPC) were met, with the QPC on tax revenue and continuous QPC on no new external payment arrears missed, of which a waiver of nonobservance on the latter was granted at the sixth EFF/ECF reviews. The end-June 2024 QPCs were met except for the fiscal QPCs (primary balance and tax revenues). The authorities are seeking waivers of nonobservance of the fiscal QPCs based on the corrective action taken through the passage of the Supplementary FY2024/25 Budget in July, consistent with program parameters. The Monetary Policy Consultation Clause was met for end-December 2023 and end-June 2024. For the end-December 2024 test date, a new QPC on fiscal revenues is proposed and the current tax revenues QPC is proposed to be monitored as an indicative target. Of the ten structural benchmarks (SBs) that were due between January and June 2024, only one was met (the end-February SB on governance of the Medium-Term Revenue Strategy), three were not met (publishing an inventory and classification of state corporations (SCs) as the published document did not meet the objective of the SB; the FY2023/24 Supplementary Budget; and the FY2024/25 Budget), three were implemented with a delay (two SBs on a strategy on clearing the stock of legacy pending bills—a report was submitted to the Cabinet in June and published in late July—and the SB on a report on review of the governance framework of the Petroleum Development Fund was published in early August) and one is expected to be implemented with a delay by end-October (a report on financial evaluation of fifty SCs based on their audited FY2022/23 accounts), while two SBs are proposed to be rescheduled to end-November to allow additional time for their implementation (the end-April SB on strategic options for restructuring of Kenya Airways and the end-May SB on legal amendments to anchor the Ownership Policy for commercial SCs). The authorities expect to meet the end-October SB on government involvement in SCs. Under the RSF arrangement, two more reform measures (RMs) have been implemented since the previous review. Other RMs are progressing, though four RMs that were expected to be completed by end-September face delays. These are RM3 on carbon pricing, RM5 on integration of climate risk in project appraisal, RM6 on adoption of priority fiscal incentives in selected sectors, and RM7 on adoption of two regulations to promote energy efficiency and distributed renewable power generation.

Policies and reforms. To firmly anchor macroeconomic stability and debt sustainability, mutually reinforcing monetary, financial, and fiscal policies remain essential complemented by structural reforms and increased efforts to mobilize external financial support at concessional terms, as well as prudent debt management strategy. The withdrawal of the 2024 Finance Bill has necessitated spending compression to contain the deficit. While spending rationalization will be important, including to restore public trust and tax morale, Kenya's elevated debt vulnerabilities and large debt service obligations call for fiscal consolidation underpinned by additional revenue mobilization to fund priority social and developmental spending needs while also ensuring debt sustainability. The spending cuts in the Supplementary FY2024/25 Budget are considered as "stop gap" measures as most of these cuts are top-down and temporary in nature and thus likely to be reversed. This is evidenced in spending pressures that have already materialized in the current fiscal year, prompting the authorities to consider additional revenue measures. Going forward, spending should be reoriented toward priority needs with a view to strengthen social safety nets and accelerate poverty alleviation and human and physical capital accumulation. To free up space for these needs, these efforts should be underpinned by expenditure reforms. Furthermore, domestic revenue mobilization that is guided by the Medium-Term Revenue Strategy and that ensures an efficient, equitable, and progressive tax regime remains central to the fiscal strategy. Building social and political consensus on such a strategy calls for strengthening accountability, transparency, and efficiency of public expenditure, including through reforms on the wage bill and at the SCs, and better fiscal risk and debt management. Given elevated risks to fiscal consolidation, timely identification and deployment of contingency measures, as needed, would also be important. This should be complemented by a tight monetary policy stance in the near term given persistence in core inflation above the desired level and the need for maintaining external sustainability. Further developing the FX market and exchange rate flexibility would cushion against external shocks and safeguard exports and FX reserves. Strengthening governance and anti-corruption frameworks—on which staff welcomes the authorities' request for a diagnostic—addressing financial sector vulnerabilities and AML/CFT deficiencies and delivering on the climate-related reform agenda would support the medium-term potential and attract foreign investment, including on climate finance.

Program access. Following resolution of the exceptional BoP needs, staff assesses, and the authorities agree, that restoring normal access by reducing the total access under the EFF/ECF arrangements by 40.3 percent quota (SDR218.73 million) is appropriate. Further, it is proposed to augment access from concessional resources under the ECF arrangement by 21.67 percent of quota (SDR117.66 million) while reducing access under the EFF arrangement by 61.97 percent of quota (SDR336.39 million). A higher access to concessional resources restores the 1:2 PRGT-to-GRA ratio, in line with Fund policies on blended access under a program, resulting in savings on Kenya's interest payments to the Fund. Access is also proposed to be rephased in line with BoP needs. Additionally, disbursements are proposed for the two RMs implemented since the last RSF review.

Program risks. Risks are significantly elevated, especially from domestic sources. Fallout from geopolitical concerns and miscalibration of monetary policy by major central banks are the key global risks. On the domestic front, amid continued social discontent, political and implementation risks for the needed fiscal consolidation are significantly heightened, including on domestic revenue

mobilization efforts, which along with downside risks to exports could undermine debt sustainability and external stability going forward. Delays in resolving legal uncertainty on key policy matters could exacerbate policy implementation risks, leading to a potential deterioration in market sentiment, higher spreads, and reversing gains in the shilling with adverse implications for debt sustainability. Timely identification and deployment of fiscal contingency measures, as needed, maintaining prudent policies, recalibration of access, and a tailored capacity development strategy to help deliver on the reform agenda could somewhat help mitigate the elevated enterprise risks, including financial risks to the Fund. Success in climate finance mobilization efforts presents an upside to investments in climate resilience.

Approved By: **Catherine Pattillo (AFR) and Eugenio Cerutti (SPR)**	The mission team comprised H. Teferra (Head), S. Çakir (IMF Resident Representative in Nairobi), S. Gupta, R. Vermeulen, and I. Stuart (all AFR); S. Mirzayev (SPR); G. Pasricha (MCM); S. Hida (FAD); L. Malcherek, D. Robinson, and R. Snipeliski (All LEG, joined virtually); and D. Tallam and K. K. Tuitoek (Nairobi office), with assistance from F. Morán Arce, M. Nsanzimana, and F. Nyankiye, (all AFR), R. Prevost (MCM), and E. Muiruri and C. Odwogi (Nairobi office). Discussions were held in Nairobi during April 2–12, May 9–15, and September 11–16, 2024, and virtually. E. Nyamongo (advisor, OEDAE) joined the discussions. The team met with President of Kenya, Dr. William Ruto; the current and preceding Cabinet Secretary (CS) for National Treasury & Economic Planning (NT), Mr. John Mbadi Ng'ongo and Prof. Njuguna Ndung'u; Governor of the Central Bank of Kenya (CBK), Dr. Kamau Thugge; Chairperson of the National Assembly's Finance and Planning Committee, Dr. Francis Kuria Kimani; the Principal Secretary for NT, Dr. Chris Kiptoo; the Principal Secretary for the State Department of Economic Planning, Mr. James Muhati; Deputy Governor of the CBK, Dr. Susan Koech; the Parliamentary Budget Office; Controller of Budget; the Auditor General; the Ethics and Anti-Corruption Commission; and other senior government and CBK officials and members of the judiciary. The mission also had productive discussions with private sector representatives from financial and nonfinancial sectors, and Kenya's development partners.

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Acronyms and Abbreviations

AiA	Appropriations in Aid
AML/CFT	Anti-money laundering/combatting financing of terrorism
BETA	Bottom-up Economic Transformation Agenda, the
BoP	Balance of payments
BRS	Business Registration Services
CA	Current account
CBA	Collective bargaining agreement
CBK	Central Bank of Kenya
CFM	Capital Flow Management
CIT	Corporate income tax
CoA	Court of Appeal
CPI	Consumer price index
DNFBP	Designated nonfinancial businesses and professions
DSA	Debt Sustainability Analysis
EA	Exceptional access
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EIB	European Investment Bank, the
EPIL	Export promotion and investment levy
FATF	Financial Action Task Force
FLLoCA	Financing Locally Led Climate Action
FSR	Fiscal Safeguards Review
FSSR	Financial Sector Stability Review
FX	Foreign exchange
FY	Fiscal year
G2G	Government-to-government
GDP	Gross domestic product
GRA	General Resources Account
IT	Indicative target
KQ	Kenya Airways
KPLC	Kenya Power and Lighting Company
KRA	Kenya Revenue Authority
LIC	Low-Income Country
LMC	Lower Middle-income Country
LOI	Letter of Intent
MAC	Ministerial Audit Committee
MDA	Ministries, Departments, and Agencies
MEFP	Memorandum of Economic and Financial Policies
MoU	Memorandum of Understanding
MPCC	Monetary policy consultation clause
MTP-IV	Fourth Medium-Term Plan, the

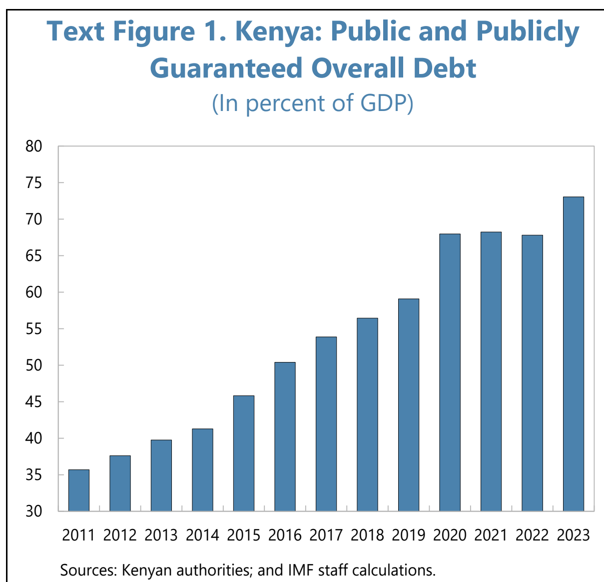
MTRS	Medium-Term Revenue Strategy
NFNF	Non-food, non-fuel
NT	National Treasury & Economic Planning
NPL	Nonperforming loan
PDF	Petroleum Development Fund
PFM	Public financial management
PIM	Public investment management
PIT	Personal income tax
PPP	Public private partnership
PPRA	Public Procurement Regulatory Authority
PRGS	Poverty Reduction and Growth Strategy
PRGT	Poverty Reduction and Growth Trust
PS-HCC	Policy Safeguards for High Combined Credit
PV	Present value
QPC	Quantitative performance criterion
RM	Reform measure
RSF	Resilience and Sustainability Facility
SB	Structural benchmark
SC	State corporation
SOE	State-owned enterprise
TA	Technical assistance
TMU	Technical Memorandum of Understanding
TSA	Treasury Single Account
UCT	Upper Credit Tranche
VAT	Value-added tax
y/y	Year-on-year

CONTEXT

1. **Kenya is at a crossroad as it faces a complex and difficult balancing act of ensuring critical spending in priority areas, meeting heavy debt service obligations, and boosting domestic revenues while restoring socio-political cohesion.** The economy showed resilience against large exogenous shocks in the past three years that ranged from multi-season droughts to global shocks that increased import costs of essential goods and effectively closed access to global bond markets. The authorities' decision to rely on tighter fiscal and monetary policies have helped somewhat in responding to these shocks, but public debt rose to a multi-decade high level by end-2023 (Text Figure 1). The rising cost of living made it increasingly difficult to garner a broader socio-political buy-in for adjustments through conventional macroeconomic policies. As a result, periodic protests have erupted, most recently during June–July against new tax measures proposed in the 2024 Finance Bill, bringing to the fore broader issues of governance and accountability of government spending and borrowing.

Text Figure 1. Kenya: Public and Publicly Guaranteed Overall Debt

(In percent of GDP)



Sources: Kenyan authorities; and IMF staff calculations.

2. **Kenya resolved its exceptional financing needs related to the June 2024 Eurobond maturity earlier than expected though recent fiscal developments have elevated the risks to debt sustainability.** Significant financing commitment by the World Bank and the Fund, including through exceptional EFF access at the time of sixth ECF/EFF reviews, facilitated the authorities' ability to resolve the exceptional balance of payments (BoP) need with an earlier-than-expected new Eurobond issuance in February, albeit at a double-digit yield.[1] This aided an easing of sovereign spreads through early 2024Q2, attracting sizable nonresident portfolio debt inflows, strengthening the shilling, and net FX purchases by the Central Bank of Kenya (CBK). However, a large shortfall in tax collections interrupted the planned fiscal consolidation in FY2023/24. Despite the authorities' attempt to course correct, the new revenue raising measures proposed in the 2024 Finance Bill, some of which were unpopular or seen as regressive, triggered widespread protests that led to tragic loss of lives and property and the decision by the President to withdraw the Bill in late June. Subsequently, a Supplementary FY2024/25 Budget was passed in late July to partially offset the impact from the withdrawal of the Finance Bill through spending cuts as a stop-gap measure and the Cabinet was reconstituted in early August. However, financing needs and borrowing costs

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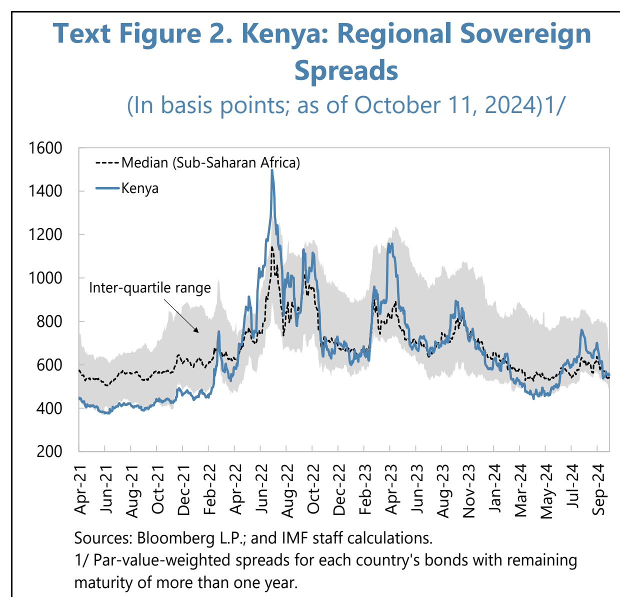
[1] The new Eurobond (US$1.5 billion) with a coupon of 9.75 percent (yield: 10.375 percent) was used to partially repay the June 2024 Eurobond in February. The new bond will be amortized over 2029–31. This was Kenya's first Eurobond issuance since June 2021. In early 2022, it postponed a €1 billion bond issuance after global financial market conditions tightened sharply. The remaining amount of the June 2024 bond was paid on June 21.

remain elevated amid significant spending carryovers from the previous year, new spending pressures, continued weakness in revenue collections, and legal uncertainty on the constitutionality of the 2023 Finance Act.[2] As a result, debt vulnerabilities have worsened since the sixth EFF/ECF reviews, sovereign spreads have risen from their post-Eurobond issuance lows, and Kenya's credit ratings have been downgraded (Text Figure 2).

3. To address debt vulnerabilities durably and safeguard external sustainability, the authorities recognize the importance of pursuing revenue-led fiscal consolidation and see a need to build consensus urgently. While frontloaded fiscal policy measures would be desirable to improve policy credibility quickly and safeguard the recent gains in market confidence, in the current socio-political context Kenya needs to build consensus on the way forward without a delay, including on domestic revenue mobilization. To this end, addressing deep-seated challenges related to the governance and anti-corruption framework is important, which will require strong and sustained policy actions to restore public trust and strengthen accountability while also streamlining nonessential spending, improving fiscal risk management, and strengthening external buffers. Broader engagement through timely and open communication and public participation on the fiscal consolidation strategy should continue to enhance accountability and renew public support on improving revenue collections. In the meantime, external financial support on favorable terms, including from the Fund, will be important to safeguard debt sustainability and outlays for social and developmental needs that will help reduce poverty, promote inclusive growth, and enhance climate-resilience.

Text Figure 2. Kenya: Regional Sovereign Spreads
(In basis points; as of October 11, 2024)1/



Sources: Bloomberg L.P.; and IMF staff calculations.
1/ Par-value-weighted spreads for each country's bonds with remaining maturity of more than one year.

RECENT MACROECONOMIC DEVELOPMENTS—A MIXED PICTURE

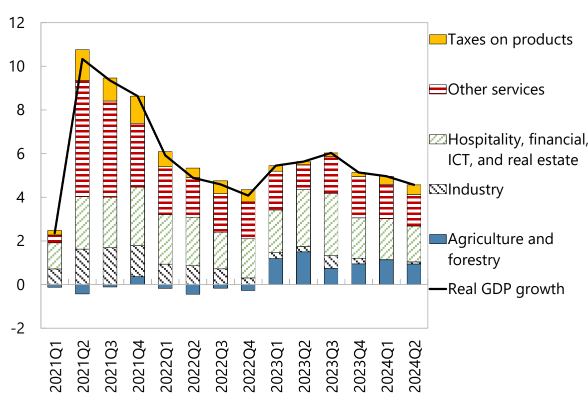
4. Economic growth recovered strongly in 2023 but has slowed recently, while inflation has eased below the target and the current account deficit has narrowed. However, fiscal developments showed a notable deterioration.

- Real GDP growth recovered to 5.6 percent y/y in 2023 (2022: 4.8 percent) following a strong rebound in agriculture (6.5 percent) after two years of severe droughts (Text Figure 3).

[2] On July 31, Kenya's Court of Appeal (CoA) ruled the 2023 Finance Act as unconstitutional. As of end-September, the case was in front of the Supreme Court which issued a stay order on the CoA ruling in August and heard arguments in early September but has yet to pronounce a judgment.

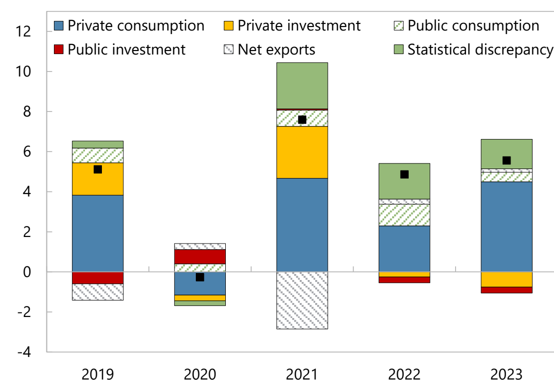
However, growth slowed in the first half of 2024 to 4.8 percent, driven by a deceleration in the nonagricultural sector. On the demand side, private consumption supported 2023 growth, but overall investment declined for the second year (Text Figure 4).

Text Figure 3. Kenya: Contributions to Real GDP Growth (Supply-Side)
(y/y, in percentage points)



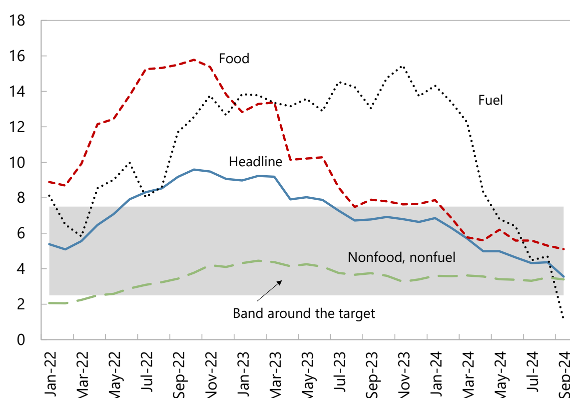
Sources: Kenyan authorities; and IMF staff calculations.

Text Figure 4. Kenya: Contributions to Real GDP Growth (Expenditure-Side)
(y/y, in percentage points)



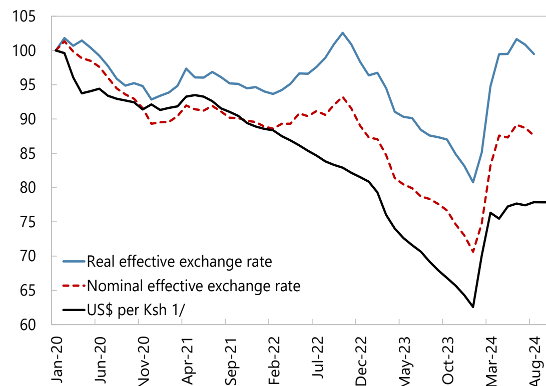
Sources: Kenyan authorities; and IMF staff calculations.

Text Figure 5. Kenya: Consumer Price Inflation
(y/y, in percent, as of September 2024)



Source: Kenyan authorities.

Text Figure 6. Kenya: Exchange Rates
(January 2000=100; upward=appreciation)



Sources: Central Bank of Kenya; and IMF, *Information Notice System* database.
1/ As of October 11, 2024.

- Headline inflation eased faster than expected to 3.6 percent y/y in September (January: 6.9 percent) due to a deceleration in food and fuel price inflation, the latter benefitting from fuel price stabilization, base effects, and the shilling's strength (Text Figure 5). Nonfood, nonfuel (core) inflation, however, remained sticky, averaging around 3.5 percent. Since August, the CBK has lowered the monetary policy rate by 100 basis points to 12 percent.

- The current account (CA) deficit narrowed to 4 percent of GDP in 2023, supported by resilient tourism and remittance inflows and a broad-based contraction in nonfood imports on the back of real exchange rate depreciation (8.3 percent). Exports (U.S. dollar value) declined, reflecting lower demand for goods from some key markets, possible impact of

some domestic policy measures, and weaker transportation services exports.[3] In the first half of 2024, the CA deficit improved further, supported by diaspora remittances (up 18 percent y/y) but growth in exports and imports were slower than expected. While goods exports grew, services exports declined on account of continued weakness in transportation export services. On the financial flows, a turnaround in market sentiment since the February Eurobond issuance has attracted large portfolio inflows, especially to the tax-free treasury bonds, but foreign direct investment continued to underperform. Against this backdrop, the shilling has strengthened, reversing last year's real depreciation. As of August, the real effective exchange rate had appreciated by about 23.2 percent since January to reach a level last seen in late 2022 (Text Figure 6).

- FY2023/24 saw a significant tax revenue shortfall resulting in about 0.6 percent of GDP larger fiscal deficit than programmed (Text Table 1). Despite growing by 11.3 percent, tax revenues fell short of the target by close to 2 percent of GDP. The shortfall was broad-based and reflected lower yields from the policy measures in the 2023 Finance Act, failure to enact the amendments to the 2023 Tax Laws (Amendment) Bill that was submitted to Parliament in mid-December, and possible lapses in tax administration.[4]

Text Table 1. Kenya: FY2023/24 Fiscal Performance

(In percent of GDP)

	Dec	June			
	Actual	*6th Rev.*	*Suppl. I*	*Suppl. II*	*Est.*
Revenues and grants	**8.3**	**19.0**	**19.0**	**18.3**	**17.2**
Tax revenue	6.4	15.1	15.1	13.5	13.2
Nontax revenue	1.9	3.7	3.7	4.5	3.8
Grants	0.0	0.3	0.3	0.2	0.1
Expenditure and net lending	**10.8**	**23.8**	**24.4**	**24.0**	**22.8**
Interest payments	2.6	5.4	5.7	5.3	5.3
Other current spending	6.5	13.8	14.1	14.6	14.0
Development and net lending	1.7	4.6	4.6	4.1	3.4
Adjustments to cash basis	1.1	0.0	0.0	0.0	0.3
Overall balance including measures (cash basis, incl. grants)	-1.3	-4.7	-5.3	-5.7	-5.3
Primary balance incl. grants	**1.4**	**0.7**	**0.4**	**-0.4**	**0.1**
Financing	1.1	4.7	5.3	5.7	5.2
Net foreign financing	-0.2	1.7	2.6	1.6	1.4
Net domestic financing	1.3	3.0	2.8	4.1	3.8
Memorandum:					
In Ksh. Billions					
PC on tax collection	1,058	2,428			2,428
PC on the primary balance	64	105			105

Sources: National Treasury; and IMF staff calculations and projections.

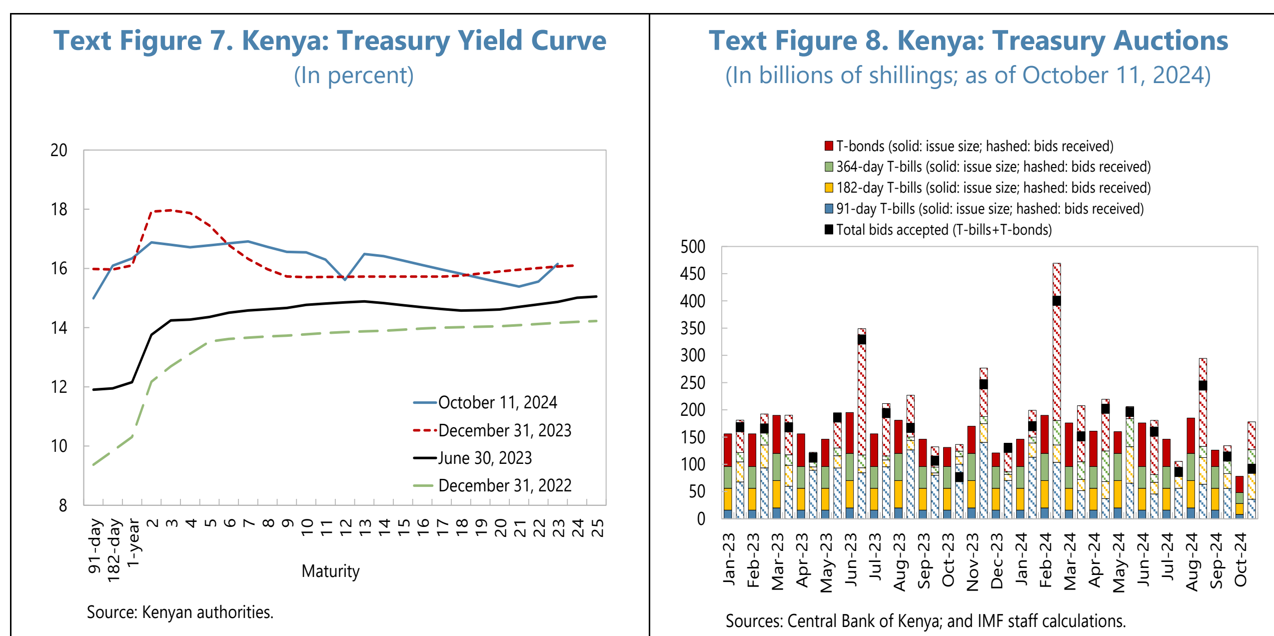
- To limit the impact of the tax revenue shortfall on the FY2023/24 deficit, the authorities identified nontax measures (0.6 percent of GDP) that were mostly temporary in nature (e.g., higher dividends and surplus funds from parastatals, including the CBK). To offset spending overruns in the education, security, social sectors, as well as to respond to the El Niño

[3] The measures include taxation of imports from tax measures like the export promotion and investment levy (EPIL) and an effort to streamline the value chain for agricultural products. The EPIL is a customs duty introduced in the 2023 Finance Act to support domestic production of clinker, iron, steel, and paper. Staff has cautioned against such import substitution measures that tend to be ineffective, costly, and distortive.

[4] Staff assesses that the shift in the sources of economic growth toward the agricultural sector (less taxed) in 2023 and 2024 could explain only a small portion of the estimated tax revenue shortfall.

related floods, they approved a second Supplementary Budget (Supplementary II) in early June to rationalize nonpriority development spending (predominantly foreign financed).

- These developments resulted in higher domestic financing needs by 0.8 percent of GDP relative to expectations at the time of the sixth EFF/ECF reviews, keeping their costs elevated (Text Figure 7). With the Supplementary II approved only in early June, the authorities managed to meet just about half of the additional domestic financing needs through borrowing (Text Figure 8). As a result, additional pending bills were accumulated. While adherence to the first charge principle (MEFP¶15) may prevent or limit the accumulation of domestic arrears and exchequer requests outstanding for more than 90 days (indicative targets under the program have zero ceilings), the spending carryover to FY2024/25 is significant, estimated at 1.3 percent of GDP, of which 0.4 percent of GDP has been provisioned in the Supplementary FY2024/25 Budget (¶11).



Text Figure 7. Kenya: Treasury Yield Curve
(In percent)

Source: Kenyan authorities.

Text Figure 8. Kenya: Treasury Auctions
(In billions of shillings; as of October 11, 2024)

Sources: Central Bank of Kenya; and IMF staff calculations.

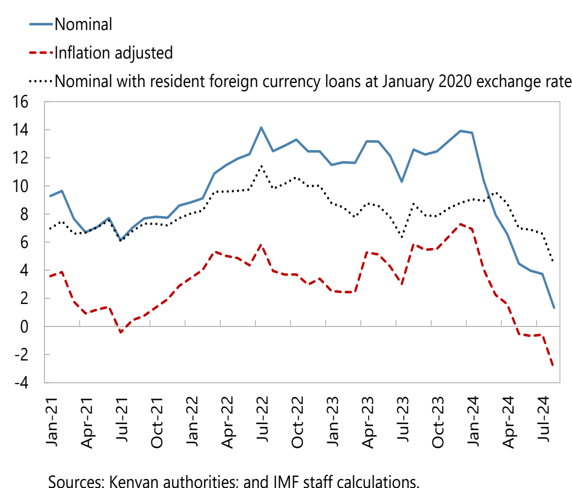
- Revenue performance in the first two months of the current fiscal year continued to disappoint, with tax revenue declining by 0.8 percent (y/y). While likely driven largely by the June-July protests, other factors like the slowdown in activity, uncertainty around tax policy, and weaknesses in tax administration are also weighing on collection. Strong nontax collection partially compensated for the weak tax performance, but revenue growth will need to accelerate from its current rate of 6.3 percent to reach the targeted growth rate of 13.2 percent for the year. In parallel, the spending compression envisaged in the Supplementary is proving difficult, with wage bill cuts being reversed as the government recently agreed to honor collective bargaining agreements.

- Larger external nonconcessional borrowing, and costlier and shorter-dated domestic issuances than expected at the time of the sixth ECF/EFF reviews have contributed to higher gross financing needs in the near term. Moreover, against the backdrop of underperforming exports and revenues, Kenya's ability to service its heavier debt burden has weakened. The

recent call for an amount of about US$150 million on government guarantees on Kenya Airways' (KQ) FX-denominated borrowing from local banks would also create additional domestic financing needs.

- Banking sector profitability ratios improved in the first half of 2024, but FX, credit, and sovereign risks are elevated (Table 5). Liquidity and capital adequacy ratios are above regulatory minima for the industry, but nonperforming loans (NPL) net of provisions are a quarter of capital. Nonperforming loans have gone up further (2024Q2: 13.3 percent, end-2023:12.3 percent, Table 5) due to rising interest rates, pending bills, and slowing activity, even as loan loss provisioning has slowed on expectations of easier monetary conditions going forward. The sovereign portfolio of banks remains significant and is unevenly distributed, contributing to profits in an environment of higher interest rates, but also exposing banks to fiscal risks and mark-to-market losses.[5] Lending rates have adjusted upward as banks implement risk-based pricing. Real private sector credit growth has decelerated, including from FX valuation effect and slowing investment demand (Text Figure 9 and Figure 5). Banks' exposure to FX swaps has increased over the past year, is increasingly with nonresidents, and is at shorter maturities (Text Figures 10–11, and Table 5). In August 2023, the authorities reduced the minimum tenor on FX swaps between banks and nonresidents from one year to six months and between residents of Kenya and the rest of the East African Community to overnight.[6] FX deposits, loans and liabilities also remain significant, though declining in the first half of 2024 due to FX valuation effects.

Text Figure 9. Kenya: Private Sector Credit
(y/y percent change; as of August 2024)



Sources: Kenyan authorities; and IMF staff calculations.

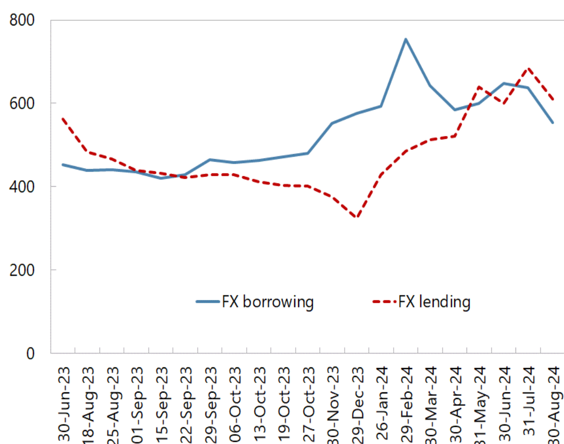
5. **In February, the FATF added Kenya to its list of jurisdictions under increased monitoring (grey list).** The decision was based on lack of sufficient positive and tangible progress in increasing effectiveness of Kenya's AML/CFT regime since the 2022 mutual evaluation.[7] Market participants reported no perceptible impact of the grey listing so far but anticipate an eventual increase in the cost of doing business, especially in correspondent banking and trade payments.

[5] The horizontal repo market is largely confined to Tier-1 banks, reflecting the limited ability of other banks to borrow against these government securities to meet short-term liquidity needs. Banks' sovereign exposures are through holdings of government and government-guaranteed debt, and through firms that rely on state contracts.

[6] "Changes to Operations in the Interbank Foreign Exchange Market", the CBK Banking Circular No. 7 of 2023.

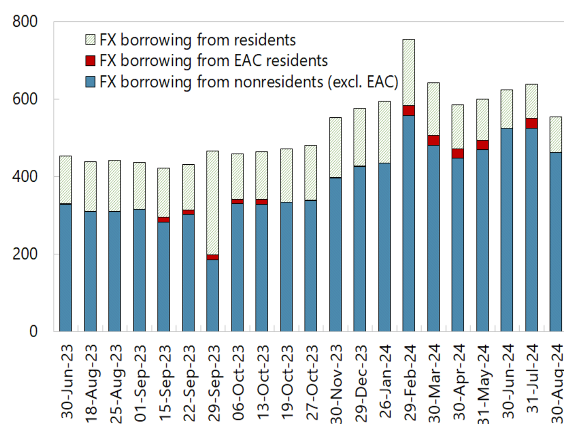
[7] Kenya was previously grey listed during 2010–14.

Text Figure 10a. Kenya: Banks' FX Swaps Outstanding
(Amount Outstanding, in millions of U.S. dollars)



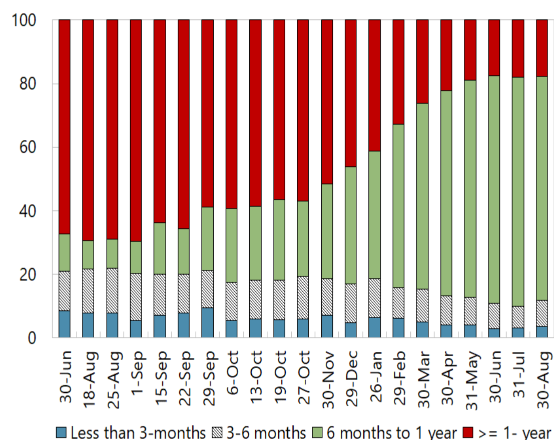
Sources: Central Bank of Kenya; and IMF staff calculations.

Text Figure 10b. Kenya: Banks' FX Borrowing via Swaps by Residency
(Amount outstanding, in millions of U.S. dollars)



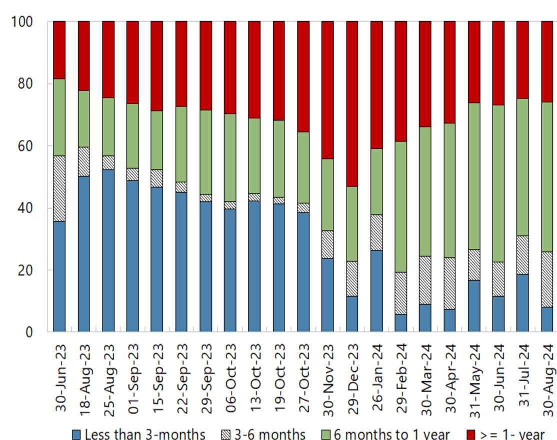
Sources: Central Bank of Kenya; and IMF staff calculations.

Text Figure 11a. Kenya: Banks' FX Borrowing via Swaps by Maturity
(Amount outstanding, share in percent)



Sources: Central Bank of Kenya; and IMF staff calculations.

Text Figure 11b. Kenya: Banks' FX Lending via Swaps by Maturity
(Amount outstanding, share in percent)



Sources: Central Bank of Kenya; and IMF staff calculations.

PROGRAM PERFORMANCE—FISCAL SLIPPAGES AND DELAYED REFORMS

6. **Program performance since the sixth EFF/ECF reviews has significantly weakened, marred by large fiscal slippages and delays in reforms.** Four out of the six quantitative performance criteria (QPC) were met for each test date (end-December 2023 and end-June 2024), while only one out of the ten structural benchmarks (SB) for January–June 2024 was met amid implementation delays (MEFP¶11 and MEFP Tables 1–2).

- *End-December 2023 test date.* All but two (tax revenues and the continuous QPC on no new external payment arrears) QPCs were met.[8] However, the primary balance target was met on a cash basis (as defined in the TMU) amid nonobservance of the indicative targets (IT) on pending obligations (exchequers requests outstanding for 90 days or more and new domestic arrears). The IT on priority social expenditure was met. The Monetary Policy Consultation Clause (MPCC) was met.
- *End-June 2024 test date*. Reflecting the fiscal slippage and further shortfall in tax revenues since December 2023, both fiscal QPCs (primary balance and tax revenues) were missed while other QPCs were met. The ITs on priority social expenditure and on domestic arrears were met but the one on exchequer requests outstanding for 90 days or more was not met. The authorities' planned action to address the tax revenue shortfall through a raft of measures in the 2024 Finance Bill was not feasible amid strong public opposition. The FY2024/25 Budget (Appropriation Bill) was, however, enacted. In the context of a redesigned revenue target under the program (see below), and to meet the objective of the program to reduce debt vulnerabilities, the authorities decided to limit the impact of the foregone tax revenues on the fiscal deficit until social buy-in allows for new tax measures. In this context, a Supplementary FY2024/25 Budget (Supplementary) was approved in late July in line with the revised primary balance, underpinned by additional top-down spending rationalization along with new nontax revenue measures. This would allow Kenya to achieve some fiscal consolidation in FY2024/25, albeit close to 1 percentage point of GDP lower than what was envisaged in the FY2024/25 Budget. The authorities plan to offset spending pressures that have emerged since the adoption of the Supplementary in July through new revenue measures, with any residual gap to be closed through spending adjustments in a second Supplementary to preserve the primary balance target ***(proposed new SB for end-January 2025)***. The QPCs on net international reserves, no new domestic debt guarantees, and present value of new external debt contracted and/or guaranteed were met as was the end-June 2024 MPCC.
- *Continuous conditionality*. All are met since the sixth EFF/ECF reviews.
- *End-January 2024 SB*. The SB on Cabinet approval and publication of an updated inventory and a new classification of state corporations (SCs) that would apply across all of government was not met. In May, an Executive Order was gazetted covering the terms and conditions of service for SC Board members and staff under a revised guideline, which was later published on July 10. The guideline also included classification of SCs into six categories (MEFP¶26), but it did not specify, in line with the objective of the SB, that such classification would apply for other purposes across the government (e.g., statistical reporting, public financial management, performance monitoring etc.) nor did it contain a legal provision or policy decision adopted with the same effect.
- *End-February 2024 SBs*. The SB on the Steering Committee to oversee implementation of the

[8] The IMF Executive Board granted a waiver of nonobservance on the missed continuous QPC at the sixth EFF/ECF reviews based on the corrective action taken.

Medium-Term Revenue Strategy (MTRS) was met.[9] The SBs on submitting to the Cabinet and releasing a report on pending bills strategy were not implemented by the target date following a more detailed consideration on how to settle the pending bills. A strategy was submitted to and approved by the Cabinet in June and published in late July.

- *End-March 2024 SBs.* Submission of the Supplementary II FY2023/24 Budget was not met. It was submitted to Parliament on April 30 and was not consistent with the program as it accommodated large fiscal slippages relative to the program targets (about 1 percent of GDP weaker primary balance and a projected 1.5 percent of GDP shortfall in tax revenues). With the short period left during FY2023/24, the authorities initially attempted to identify measures in the context of the FY2024/25 Budget and the 2024 Finance Bill but did not enact the latter amid widespread public protests. The SB on the governance structure of the Petroleum Development Fund was also not met but implemented with a delay: the authorities published in August a report on the assessment and recommendations for strengthening management of the fund.
- *End-April 2024 SBs.* The FY2024/25 Budget was submitted to Parliament on April 30, consistent with proposed modifications to the revenue and primary balance targets set under the sixth EFF/ECF reviews. However, the SB was assessed as not met since several proposals underpinning the draft budget required further consultation to strengthen credibility of the entire package. The SB on strategic options for KQ was not met due to considerations of options for a strategic investor and additional time needed to implement the remaining business restructuring processes at the airline. This SB is now proposed to be rescheduled to end-November 2024.
- *End-May 2024 SB.* Submission to Parliament of legal amendments to anchor the new Ownership Policy for SCs and other state-owned enterprise (SOE) Blueprint measures in the law was not met due to a longer-than-expected legal drafting process. The drafting benefitted from Fund technical assistance (TA). Public participation on the draft bill continued until June 14, 2024. The authorities are requesting to reschedule this SB to end-November 2024.
- *End-June and end-October 2024 SBs.* As of August, the authorities had completed financial evaluation of seventy SCs based on their FY2022/23 audited accounts with Fund TA assisting on the design of the exercise. The delay in completing the audit was related to non-availability of all the audited FY2022/23 accounts in time. A report based on the findings of the evaluation is expected to be sent to the Fiscal Risk Committee by end-October 2024. In addition, the authorities expect to meet the end-October SB on submitting a report to Parliament on government involvement in SCs and publishing it.
- *The Resilience and Sustainability Facility (RSF) arrangement (MEFP Table 3).* Since the last RSF review, two reform measures (RMs) have been implemented: incorporating climate-change scenarios in fiscal risks statement (RM2), which benefitted from Fund TA; and green finance taxonomy with support from the European Investment Bank (EIB) (RM4). Other RMs that

[9] See Box 1 in IMF Country Report No. 2023/266 for a summary on the MTRS.

were due by end-September face delays (i.e., RM3 on carbon pricing, RM5 on integration of climate risk in project appraisal, RM6 on adoption of priority fiscal incentives in selected sectors, and RM7 on adoption of two regulations to promote energy efficiency and distributed renewable power generation) (for details see ¶28).

OUTLOOK AND RISKS—POSITIVE MEDIUM–TERM PROSPECTS BUT ELEVATED NEAR–TERM RISKS

7. In 2024, Kenya's growth prospect remains strong. Relative to the sixth EFF/ECF reviews, an improved outlook for agriculture is expected to support near-term growth and inflation, while a stronger-than-expected shilling also contributing to the latter. However, the cost of credit is projected to remain elevated due to higher domestic financing needs from the government. Rationalization and cuts in public spending, including at SCs, would slow down public investments and reduce public sector's contribution to growth. On balance, Kenya's 2024 growth is projected at 5 percent, above the forecast for median growth in Sub-Saharan Africa (about 4.0 percent). On the external front, exports and imports are projected to recover moderately from last year's contraction while remittances would grow stronger. The CA deficit is projected at around 4 percent of GDP. FX reserves are projected to rise in 2024, supported primarily by debt-creating inflows and remittances, and remain adequate at around 4 months of prospective import coverage.

8. The medium-term outlook is positive, though growth is revised down marginally, and debt vulnerabilities have increased. In March, Kenya launched its fourth Medium-Term Plan (MTP-IV, 2023–27) of the Kenya Vision 2030.[10] The MTP-IV projects medium term growth surpassing 7 percent by 2027 as policies focus on improving contributions from agriculture; micro, small, and medium enterprises; housing; healthcare; and the digital economy. However, given Kenya's elevated debt vulnerabilities and implication for borrowing costs, staff assesses the underlying financing assumptions for the medium-term growth outlook under the MTP-IV as ambitious (Annex I). Under the program, staff has revised down its medium-term growth projection to 5 percent from 5.3 percent. Though still modestly stronger than Kenya's average growth over the past decade, this revision reflects a slower recovery in capital accumulation from recent declines in investment, further rationalization of development spending, and limited space for debt accumulation. The medium-term BoP and reserve accumulation will need to be supported by policies, and would also gain from improvements in exports, foreign direct investment, and other private capital flows as reforms progress and global rates ease.

9. The balance of risks to the outlook remains tilted to the downside, dominated by domestic risks (Annex II).

- Recent protests, triggered by tax proposals in the withdrawn 2024 Finance Bill, have increased the risks to the authorities' ability to credibly implement their fiscal consolidation strategy and medium-term revenue mobilization plans, requiring reliance on more spending

[10] Kenya's development blueprint covering 2008–30.

cuts in the near term, which would further undermine medium-term growth prospects, if sustained, and potentially worsen poverty levels. Delays in reaching a consensus on policy direction could exacerbate risks to the outlook, leading to a potential deterioration in market sentiment and elevated borrowing costs for longer or loss of market access, with adverse implications for debt sustainability. Unexpected additional spending needs (e.g., materialization of contingent liabilities—including from the G2G oil importation scheme, KQ, and SCs—worsening of regional security situation, and climate shocks) would also add to fiscal pressures. Elevated credit and market risks could expose financial sector vulnerabilities. Extreme weather events could exacerbate food insecurity among the vulnerable and worsen the incidence of poverty, requiring additional fiscal support. Delays in addressing the AML/CFT deficiencies could lead to lower net capital inflows.

- On the external sources of risks, commodity price volatility, geopolitical fragmentation, intensification of Red Sea attacks and tensions in the Middle East, lower trading partner growth, weaker tourism, monetary policy miscalibration in advanced economies, and deterioration in investor sentiment about Kenya would add pressures to exchange rate and FX reserves and worsen debt vulnerabilities.
- In the near term, stronger agricultural growth and diaspora remittances could cushion the economy. Over the medium term, progress on implementing the authorities' fiscal strategy, supported by effective communication and an inclusive participatory approach; structural reforms, as envisaged under the authorities' MTP-IV and the programs supported by the Fund and development partners; and implementation of trade agreements could improve growth, competitiveness, and foreign investment.[11] Success in climate finance mobilization efforts presents an upside to investments in climate resilience.

POLICY DISCUSSIONS—A CREDIBLE FISCAL POLICY AND STEADFAST REFORMS ARE PARAMOUNT

To anchor macroeconomic stability and debt sustainability, and in view of the withdrawal of the 2024 Finance Bill and subsequent legal challenges to the 2023 Finance Act, discussions focused on limiting the adverse impact of these developments, both in the near and the medium term. These include "stop-gap" spending measures in the Supplementary FY2024/25 Budget to contain the impact on the fiscal deficit while providing time to build public consensus on revenue-based fiscal consolidation that ensures a more efficient, equitable, and progressive tax regime. Given Kenya's high risk of debt distress and worsened debt dynamics since the sixth EFF/ECF reviews, improving revenue mobilization, guided by the Medium-Term Revenue Strategy, remains central to ensuring growth-friendly fiscal consolidation over the medium term that provides assurances on Kenya's capacity to service its debt obligations while also delivering essential public goods and services effectively. This would need to be complemented by mutually reinforcing monetary, financial, and medium-term policies and reforms, including boosting exports and strengthening financial sector resilience. Building buffers and

[11] An Economic Partnership Agreement between the European Union and Kenya has entered into force.

identifying contingency measures, including in the event the Supreme Court upholds the unconstitutionality verdict on the 2023 Finance Act, that could be deployed when needed in a timely manner will also be critical. To support medium-term prospects, discussions included strengthening the governance and anti-corruption framework, addressing the AML/CFT deficiencies, and delivering on the climate agenda under the RSF arrangement, including through tailored capacity development support provided by the Fund.

A. Fiscal Policy—Renew Consolidation Efforts to Safeguard Debt Sustainability

10. Following strong public opposition to some of the revenue measures proposed in the FY2024/25 budget and subsequent withdrawal of the 2024 Finance Bill, the Supplementary FY2024/25 Budget targets an expenditure-led fiscal effort. Recognizing that the impact on the deficit from the removal of 1.8 percent of GDP in revenue measures could not be fully offset by spending compression without severely compromising critical public service delivery, the Supplementary FY2024/25 Budget targets a primary surplus of 1.4 percent of GDP (about 1 percent of GDP lower than what was envisaged in the FY2024/25 Budget).[12] Specifically:

- *Revenues*: The Supplementary provides a limited window to build social and political consensus for a credible revenue-led medium-term fiscal adjustment strategy consistent with the MTRS. In parallel, the authorities expect to collect higher ordinary nontax revenues from increased levies and fees, and SOE dividends (yielding 0.3 percent of GDP).[13,14]
- *Spending*: Relative to FY2023/24, the authorities envisaged about 1.3 percent of GDP rationalization of primary spending through efforts to contain the wage bill, transfers (with a focus on parastatals), and intermediate consumption, while further rationalizing nonpriority projects (MEFP¶13).[15] Nearly half of the financing gap resulting from the withdrawal of the 2024 Finance Bill is expected to be closed through additional spending cuts (0.7 percent of GDP). While the government announced further wage bill savings and cuts to the operations and maintenance budget, more than 90 percent of the spending cuts relative to the FY2024/25 Budget fall on domestically-financed development spending.

11. However, spending measures are subject to considerable risks as pressures are already materializing. Risks include a reversal of top-down across-the-board spending cuts as spending pressures emerge. Indeed, while the Supplementary included a small provision for agreed collective bargaining agreements (CBAs), the government has agreed to demands from the security sector,

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[12] The initial FY2024/25 Budget targeted a primary surplus of 2.4 percent of GDP, up from 1.7 percent of GDP envisaged at the time of the sixth EFF/ECF reviews, to correct for the fiscal slippage in FY2023/24 and offset associated higher interest cost (up by 0.4 percentage points of GDP relative to the sixth EFF/ECF reviews).

[13] The authorities also expect to collect more revenues from tax administrative measures. Staff treats yields from any such measures as an upside to the baseline.

[14] Ministerial Appropriations in Aid (AiA) are projected to decline in percent of GDP, but this is budget neutral as the receipts are earmarked for corresponding AiA spending.

[15] Using staff's projected fiscal year GDP, this effort would amount to about 1 percent of GDP.

teachers, and civil servants to honor the CBAs, leading to wage bill pressures of more than 0.1 percent of GDP that more than offset the envisaged wage bill savings. Other pressures from the education and security sectors, including for the funding of universities and technical and vocational training, amounting to 0.3 percent of GDP will also need to be accommodated.[16] Together with the clearance of the spending carryover from FY2023/24, spending pressures amount to some 1.3 percent of GDP. In addition, savings from reducing transfers to parastatals may not materialize fully if the affected entities are not sufficiently self-sustaining and in good financial health.[17] Staff has cautioned against deep cuts in development spending—bringing domestically-financed development spending to the lowest level in the past two decades—that may not generate the envisaged savings should existing projects be affected due to the accrual of penalties and fees nor improve debt dynamics due to negative growth effects. With development spending accounting for about 60 percent of the unfunded spending carryover from FY2023/24, clearing this through further cuts would affect existing projects and would not be sustainable. Instead, staff sees scope for more permanent savings from streamlining the wage bill—including for counties and parastatals that would over time allow for significant savings on related transfers—intermediate consumption, and other recurrent spending through reform of allowances, the payroll system, public procurement, SCs, and other reforms, even though these are more likely to materialize in the medium term as the reforms would take some time.

12. Similarly, new revenue measures, targeting to offset the spending pressures and credibly reduce debt vulnerabilities over the medium term, face risks. In view of the spending pressures, the authorities have submitted to Parliament a tax laws amendment bill with new revenue measures amounting to 0.9 percent of GDP (annual yield), including rationalizing selected VAT expenditures, increasing and realigning excise duties on selected goods and services, and increasing specific levies on imports (see MEFP¶14).[18] However, these measures will not be sufficient to offset the new spending pressures and clearance of the spending carryovers from FY2023/24, necessitating further measures to preserve the primary balance target. To this end, the authorities are committed to submit a Supplementary II FY2024/25 Budget ***(proposed new SB for end-January 2025)*** to deliver the program's primary balance through additional fiscal measures as necessary. Likewise, to preserve the primary balance target and prevent further accumulation of unpaid bills, they are committed to swiftly address any adverse ruling by the Supreme Court on the constitutionality of the 2023 Finance Act through revenue measures in compliance with the Court's guidance.

13. The authorities' medium-term fiscal strategy would need to embark on a renewed revenue-based fiscal adjustment to reduce debt vulnerabilities while providing space for

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[16] Staff has cautioned against cuts affecting education spending and funding for the Kenya Revenue Authority (KRA) so as not to impact its capacity to implement tax reforms.

[17] Staff raised concerns around the viability of the 28 percent cut in transfers in the FY2024/25 Budget, on average across entities, in the recurrent transfers from FY2023/24, especially for entities that have little margin to raise fees and cut spending. This holds for entities in the education and health sector that account for the bulk of the cuts, both of which could adversely impact long-term economic growth and human capital formation.

[18] Staff has cautioned against measures, such as steep excise rates on selected imported goods to protect domestic industries.

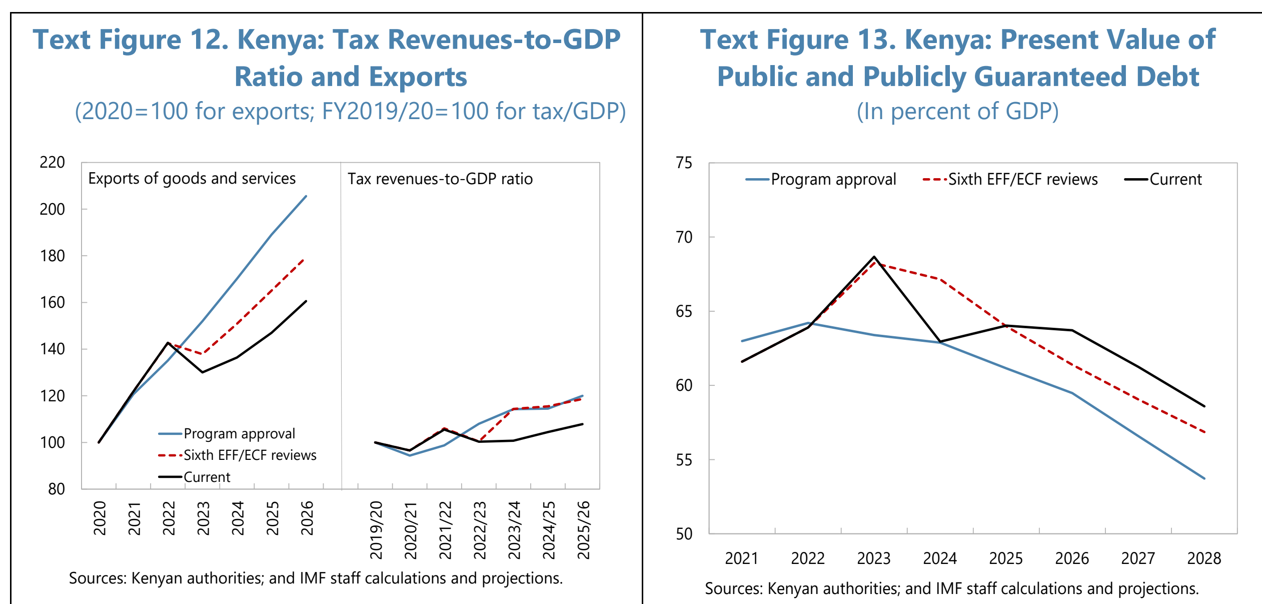
high-priority spending. Even staying within the upper limit of the band around their debt anchor by 2028 will require an average annual primary effort of about 0.3 percent of GDP over the medium term (¶14), relying on a steady increase in tax and nontax revenues (cumulatively by about 1.6 and 0.2 percent of GDP, respectively).[19] To this end, strengthening accountability and charting a path for a more efficient, equitable, and progressive tax regime would be key to restore public trust, tax morale, and build social consensus on a revenue-based fiscal strategy. In particular, tax policy measures should be carefully designed to avoid unintended economic and distributional effects, resisting pressure from vested interests, and to enhance equity and progressivity of the tax regime, guided by the MTRS. Resuming efforts to widen the tax base and strengthen tax compliance as envisaged under the MTRS would need to be supported by adequate economic impact assessment of the policy choices, including on equity, and their political and social feasibility, while also further streamlining recurrent spending and enhancing its efficiency (MEFP¶17). In tandem, enhancing predictability of financing and institutional arrangements for social protection delivery systems while accelerating efforts to strengthen governance and transparency will be indispensable to garner political and social support for the needed reforms. To this end, adopting a comprehensive PIT, CIT, and VAT reform plan as envisaged in the MTRS by the Steering Committee ***(proposed new SB for end-February 2025)*** will be essential as part of the preparation of the necessary legislative changes for the FY2025/26 Budget. While the FY2023/24 tax amnesty on arrears is proposed to be extended until end-June 2025, to improve the collection of tax arrears after it lapses, the authorities commit to KRA adopting and publicizing measures for rigorous enforcement of tax arrears that did not comply with the tax amnesty and a comprehensive tax arrears management strategy to prevent arrears from accumulating in the future ***(proposed new SB for end-November 2024)***.

14. Kenya remains at a high risk of debt distress with marked deterioration in debt dynamics since the sixth EFF/ECF reviews, driven primarily by a weaker outlook for revenue mobilization and continued underperformance in exports (Text Figures 12 and 13; see DSA for details). Ensuring debt sustainability is contingent on timely course correction and delivery of revenue-driven fiscal consolidation and robust export performance over the medium term.

- Public debt increased to 73.1 percent of GDP in 2023 (68.7 percent of GDP in present value terms), the highest level in two decades, primarily on contributions from higher interest rates, real exchange rate depreciation, and a weaker primary fiscal balance than envisaged. The February Eurobond issuance helped address the near-term refinancing pressures earlier than expected but raised external debt servicing needs over the medium term. While the overall public debt/GDP ratio is expected to improve in 2024, this reflects primarily exchange rate appreciation offsetting the impact of the higher fiscal deficits in FY2023/24 and FY2024/25 and the resultant higher interest cost.
- Kenya faces large external and domestic debt service obligations in the coming years, with average debt service to revenues ratio exceeding 60 percent during 2024–28. Kenya has one

[19] Parliament stipulated that the debt anchor of 55 percent of GDP of overall debt/GDP in present value terms should be reached within 5 years of adoption, thus by 2028, allowing for a margin of ±5 percent for unforeseen shocks.

of the largest interest bill to revenue ratios in the region.[20] Meanwhile, weaker export performance weighs on Kenya's debt servicing capacity to meet large external debt service falling due in the coming years (Text Figure 14), averaging around US$4.7 billion annually. Relative to the sixth EFF/ECF reviews, weaker primary fiscal balances in FY2023/24 and FY2024/25, the recent call on KQ guarantee (¶4), and large domestic debt redemptions in FY2024/25 significantly increase domestic financing needs, keeping near-term domestic borrowing costs elevated for longer. Heavier reliance on tax-free infrastructure bonds in recent years with significant nonresident investor participation exposes Kenya's debt to sudden sentiment reversals and exchange rate pressures.



Text Figure 12. Kenya: Tax Revenues-to-GDP Ratio and Exports
(2020=100 for exports; FY2019/20=100 for tax/GDP)

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

Text Figure 13. Kenya: Present Value of Public and Publicly Guaranteed Debt
(In percent of GDP)

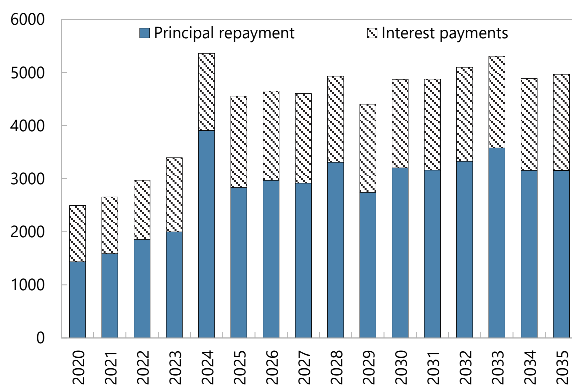
Sources: Kenyan authorities; and IMF staff calculations and projections.

- Kenya's DSA indicators are expected to improve, but gradually and conditional on timely implementation of credible measures and structural reforms to deliver revenue-based multi-year fiscal consolidation and a notable improvement in export growth relative to the performance in the past decade.[21] Underperformances in needed fiscal efforts or export growth would adversely impact Kenya's debt dynamics. Thus, the authorities will have to urgently embark on a strategy to deliver a stronger primary fiscal balance path over the medium term to help offset the projected higher contributions to the debt dynamics from elevated real interest rates (¶13 and Text Figure 15). Improving Kenya's debt carrying capacity (DSA¶39) and implementation of the Medium-Term Debt Management Strategy would help address debt vulnerabilities. Additional external financing on concessional terms could complement the needed policy adjustments while helping to meet financing pressures and alleviate debt vulnerabilities somewhat. Further reserves build-up would help mitigate adverse risks to debt sustainability, including those caused by natural disasters.

[20] The ratio of interest payments to revenues (including grants) was about 30 percent in 2023—well above the Sub-Saharan Africa average of about12 percent—and is projected to average at 27 percent over 2024–28.

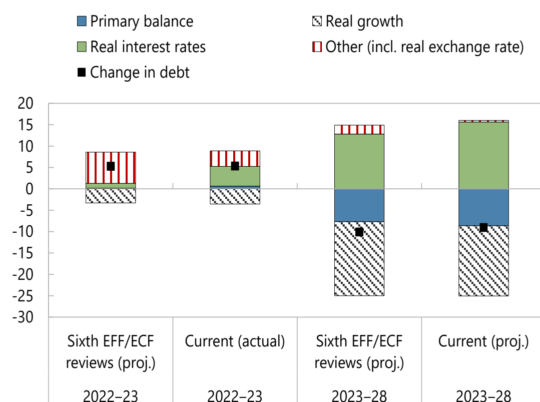
[21] For an analysis of key structural determinants of Kenya's low per capita exports and competitiveness, see Annex VI of IMF Country Report No. 2024/13.

Text Figure 14. Kenya: Debt Service on Public and Publicly Guaranteed External Debt 1/
(In millions of U.S. dollars; includes projected new debt)



Sources: Kenyan authorities; and IMF staff calculations and projections.
1/ Includes debt service on projected debt under the baseline.

Text Figure 15. Kenya: Contributions to Changes in the Public Debt/GDP Ratio
(In percentage points)



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

15. Further deepening and developing domestic debt markets would help with better management of fiscal financing plans. Addressing impediments to market development, efficient intermediation, and risk management would help build a diverse and resilient investor base to support deepening of markets and better management of fiscal financing. Clearer delineation of responsibilities among public institutions, improving the market infrastructure, establishing a liquid yield curve by increasing the issuance sizes of the benchmark bonds, striving for tax neutrality across all financing instruments, introducing an issuance calendar, and further strengthening of communication and transparency with investors would enhance market participation and smooth auction demand, ensuring financing goals are met. Strengthening cash/liquidity forecasting capacity would support realistic domestic issuance plans in line with revenue and external financing flows, which would help prevent buildup of pending bills and occasional spikes in domestic issuances. The authorities have received Fund TA on domestic debt market development.

B. Public Financial Management and State Corporations—Further Scope for Mitigation of Fiscal Risks

16. The authorities are making progress in enhancing public financial management (PFM) and addressing legacy financial issues (MEFP Section D). The National Treasury (NT) is implementing the adoption of a Treasury Single Account (TSA) and the accrual basis of accounting, aimed at improving cash management and fiscal reporting. Additionally, the PFM strategy for 2023–28, supported by development partners and the Fund, outlines measures to improve accountability and oversight. Expenditure arrears accumulated during the last decade will be addressed by ensuing annual budgets.

- The Pending Bills Verification Committee has received claims amounting to Ksh.571.6 billion (3.4 percent of GDP) from central government entities.[22] Following the Committee's recommendations, on June 11, the NT received Cabinet approval on clearing the verified claims over a period of five years, starting in FY2025/26 (end-February 2024 SB, previously rescheduled from end-September 2023), and introducing measures to prevent the future accumulation of such bills. The strategy was published in late July (end-February 2024 SB). The carryovers (unpaid bills) from FY2023/24 will be cleared during FY2024/25 through additional appropriations in the Supplementary FY2024/25 budget and prioritization of spending execution to this end, consistent with the first charge principle. Any remaining carryover will be cleared through further appropriations in the second Supplementary FY2024/25 budget (MEFP¶16).
- The NT has made progress in reviewing 437 stalled or underperforming investment projects with an estimated cost of Ksh.600 billion (about 3.6 percent of GDP). In consultation with the ministries and departments and the decision on spending cuts, the NT will choose the projects that will continue to be financed by the ensuing annual national budgets.
- The Auditor General's November 2023 special audit report on supplementary appropriations under Article 223 of the Constitution listed several shortcomings, such as the lack of guidelines and criteria for approving requests for additional funding, the lack of public participation in the supplementary budgets (usually two each budget year), and cases where funds granted under Article 223 were not applied lawfully and effectively. The NT will amend the PFM Act to take into account findings of the report and measures included in the PFM reform strategy. The amendments aim to further strengthen the framework on in-year revisions to the budget and prevent the accumulation of pending bills, while addressing gaps in supplementary appropriations under Article 223 of the Constitution ***(proposed new SB for end-December 2024)***. The Fund stands ready to provide TA.

17. The authorities are intensifying efforts to involve the private sector in the provision of public services through Public-Private Partnership (PPP) contracts. The FY2024/25 Budget outlines 37 potential PPP projects, amounting to a total cost of Ksh.1,600 billion (about 9 percent of GDP). These projects are primarily concentrated in the sectors of transportation, water and sanitation, and healthcare, and are planned for execution in the coming years. Ksh.70 billion is anticipated to be mobilized during FY2024/25. Aware of the potential fiscal risks posed by PPPs, the NT has committed to enhancing the public investment management (PIM) framework. Staff has informed the authorities the Fund's readiness to provide TA, including guidance on aligning PIM with PPP practices and on strategies to mitigate fiscal risks from PPPs.

18. The authorities are taking steps to mitigate fiscal risks from fuel price stabilization decisions. An inter-ministerial taskforce was established in October 2023 to review the functioning of the fuel pricing mechanism and recommended measures to ensure that fuel pricing decisions are at all times aligned with the budgeted resources, following which the authorities published a

[22] An estimated amount of prospectively verified pending bills is included under the DSA's contingent liabilities shock.

statement.[23] Moreover, to ringfence the resources budgeted for price stabilization purposes, the Auditor General's Office will conduct and publish a comprehensive audit of the fuel pricing mechanism and recommend actions to strengthen the design of triggers for price stabilization decisions with clear parameters that are not only a function of market prices, exchange rate developments, and margins of the oil marketing companies, but also of resources concurrently available in the Petroleum Development Fund (PDF) for stabilization purposes and its role in financing development projects (in view of a potential shortfall in levy collections under the PDF and development spending funded from it) ***(proposed new SB for end-January 2025).***

19. The authorities are focusing on improving governance and efficiency in the SCs by consolidating them and streamlining their spending (MEFP Section E). In FY2024/25, the authorities have launched efforts at generating more revenues for the national exchequer by the SCs—including better management and reporting of revenues and stricter implementation of remittance of dividends—and lowering transfers to SCs by improving their efficiency and rationalizing their nonessential spending (MEFP¶¶17 and 26).

- The authorities have undertaken financial evaluations of seventy SCs based on their FY2022/23 accounts, providing specific recommendations and actions for each SC.[24] The NT has submitted a policy paper to the Cabinet recommending the consolidation, dissolution/privatization, or reintegration into the line ministries of a number of SCs. On February 14 and June 11, the Cabinet approved state divesture in eleven entities that are not impacted by the new Privatization Act of 2023, which, however, was declared unconstitutional by the High Court on September 24 on grounds of insufficient public consultation.[25] The authorities intend to pursue their privatization agenda and plan to seek legal recourse to the High Court ruling.
- By end-November, the authorities are expected to submit to the Cabinet strategic options for restructuring KQ given additional time needed for consideration of a potential strategic investor and resolution of some of the outstanding critical reforms at the airline ***(proposed rescheduling of the SB from end-April to end-November 2024)***. The airline reported a net profit for the six months ending in June 2024, for the first time in over a decade, but its indebtedness remains high. Its guaranteed FX-denominated debt is being serviced by the government. [26] The Kenya Power and Lighting Company (KPLC) has onboarded independent

[23] The authorities have been using resources under the Petroleum Development Levy Fund to stabilize fuel pump prices since November 2023.

[24] The evaluations show that in FY2022/23 SCs faced a challenging year, particularly those that have been operating with losses for years. The number of such SCs and their total losses increased in FY2022/23.

[25] In November 2023, divesture from another eleven entities were proposed under this Act but was suspended following a legal challenge. Proceeds from any divesture are considered as upsides to program baseline.

[26] KQ's government-guaranteed external debt was novated last year. On the FX-denominated debt to local banks, out of an US$225 million government guarantee, about US$150 million was called in August. The authorities intend to issue tradable local currency securities to settle the called amount.

private directors and is in the process of implementing the Cabinet-approved May 2023 Action Plan on restoring its medium-term profitability.[27]

- In May, an Executive Order was gazetted informing on the adoption of revised Guidelines on Management and Terms and Conditions of Service for Board Members and Staff of State Corporations that included an inventory and classification of SCs into six categories (MEFP¶26). The guidelines were published on July 10.
- The authorities expect to submit to Parliament legal amendments to anchor the Ownership Policy for the commercial SCs before end-November 2024 as the legal drafting process took longer than expected ***(proposed rescheduling of the SB from end-May to end-November 2024)*.**

C. Monetary, Exchange Rate, and Financial Sector—Ensure Stability

20. The tight monetary policy stance remains appropriate given risks to price stability and external sustainability. While headline inflation reached the target earlier than expected, benefitting from lower food prices and a stronger shilling, core inflation remains sticky above the level that the CBK considers appropriate for its price stability objective. Against this backdrop, the CBK has lowered the policy rate in two steps since August by a cumulative 100 basis points to 12 percent. Relative to the pre-COVID-19 average, the real policy rate is higher but the differential with the nominal U.S. policy rate is modestly lower (Text Figure 16). Operationally, in June 2024, the CBK reduced the width of the interest rate corridor to contain volatility in the interbank market and has introduced additional adjustments to its operational framework to steer the average interbank rate toward the policy rate over time (MEFP¶42 and Text Figure 17).[28]

21. FX and money market volumes have improved while structural issues remain, and risks related to the G2G oil importation scheme are concentrated in one large bank with sizable government shareholding. The interbank FX market volumes benefitted from recent measures and a turnaround in market sentiment, averaging at 7 percent of total volumes between January and August 2024, but FX spreads remain large and volatile.[29] Staff discussed with the authorities the importance of exchange rate flexibility in enhancing resilience against external shocks by supporting exports, other inflows, and FX reserves; the need to facilitate further development of the FX market, including FX hedging instruments; and a strategy for FX reserves accumulation and intervention.

- The DhowCSD and other measures are supporting a rise in interbank repo trades, albeit still limited among the Tier-1 banks. Several banks continue to rely on the CBK discount window for reserves management or reportedly for investment into government securities as their yields have been periodically higher than the CBK discount rate since August 2023.

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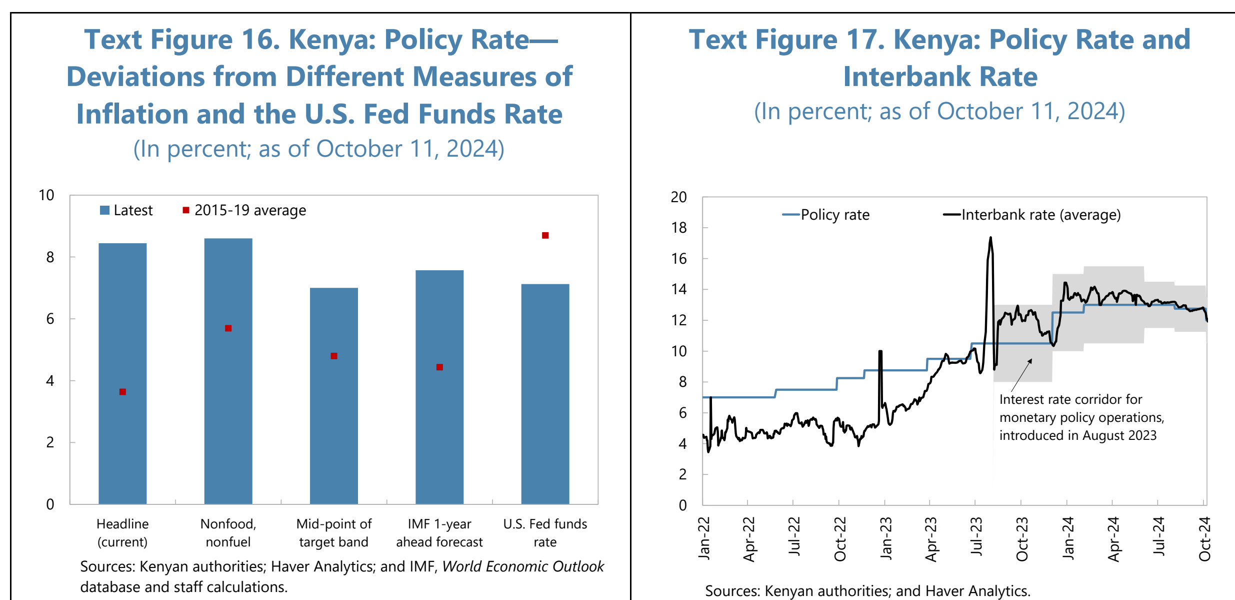
[27] Kenya Power reported operating profits for July–December 2023.

[28] The CBK uses repurchase agreements (repos), reverse repos, and term auction deposits as instruments for open market operations. Further, horizontal repos between commercial banks are done under CBK supervision (see here).

[29] The authorities maintain that such spreads are not a result of official action.

- Under the G2G oil importation scheme, more banks are participating, although activity remains concentrated in one large bank with sizable government shareholding.[30] These banks' shares in banking sector assets (higher FX deposits abroad) and holdings of government debt (investing local sales proceeds into T-bills) have grown. Imported volumes so far are short of the contracted amounts due to a decline in fuel consumption both in the domestic and re-export markets.[31] Given the contracted volumes, the authorities could face contingent liabilities from a decision by Uganda, an important destination for oil re-exports, to source its fuel imports directly. The authorities envisage the private sector eventually taking over the entire operation of the scheme but have not committed on the timeline.



Text Figure 16. Kenya: Policy Rate—Deviations from Different Measures of Inflation and the U.S. Fed Funds Rate
(In percent; as of October 11, 2024)

Sources: Kenyan authorities; Haver Analytics; and IMF, *World Economic Outlook* database and staff calculations.

Text Figure 17. Kenya: Policy Rate and Interbank Rate
(In percent; as of October 11, 2024)

Sources: Kenyan authorities; and Haver Analytics.

22. Banks' FX, sovereign, and credit risks remain elevated.[32] Banks' FX and sovereign exposures pose exchange rate, credit, and interest rate risks to their balance sheets. With support from Fund TA, the CBK is developing Internal Liquidity Adequacy Assessment Program Guidelines for banks, which will include Foreign Currency Liquidity Coverage Ratio and Net Stable Funding Ratio as monitoring tools. Nonperforming loans are high (2024Q2: 13.3 percent of gross loans; 2023Q2: 11.9 percent, see Table 5) and asset quality improvements remain contingent on the resolution of government's pending bills and recovery of commercial real estate market and economic activity.[33] Continued adequate provisioning, and recovery, and resolution efforts are recommended. The proposed increase in minimum capital requirements to Ksh.10 billion for banks is expected to increase industry consolidation in the medium term. Regional expansion of banks provides risk diversification but increases the potential for negative external spillovers from Kenyan

[30] See Box 3 in IMF Country Report No. 2023/266. The scheme was extended to December 2024.

[31] On reconciliation of fuel re-exports statistics, the authorities have formed a committee comprising the Kenya National Bureau of Statistics, Kenya Revenue Authority, Energy and Petroleum Regulatory Authority, and the CBK (see DSA Box 1 in IMF Country Report No. 2024/13). The authorities have requested Fund TA on the matter.

[32] See Annex V of IMF Country Report No. 2023/266.

[33] Banks cite depressed prices for commercial real estate as a key deterrent for NPL recovery and write-off.

shocks. Staff sees risks and potential vulnerabilities arising from the easing of the Capital Flow Management (CFM) measure pertaining to FX swaps (¶4). To mitigate those risks, the authorities are advised to enhance implementation of existing macroprudential measures and introduce macroprudential measures aimed at managing and controlling banks' FX maturity mismatches. The Fund's support through a macroprudential strategy TA and a Financial Sector Stability Review (FSSR) will aid the authorities in developing strategies to mitigate financial stability risks, and staff encouraged the authorities to speedily implement the key recommendations.[34]

D. AML/CFT, and the Governance and Anti-Corruption Framework—Addressing the Deficiencies and Strengthening the Frameworks

23. The authorities are making efforts to address deficiencies identified in Kenya's AML/CFT regime and increase its effectiveness (MEFP¶57). Following the February "grey-listing", the authorities agreed with FATF to an action plan to address key shortcomings identified and strengthen the effectiveness of Kenya's AML/CFT framework. Priority actions include the completion of a terrorism financing risk assessment and related updating of the national AML/CFT strategies, adopting a supervisory framework for Virtual Asset Service Providers, and strengthening AML/CFT risk-based supervision of financial institutions and designated nonfinancial businesses and professions (DNFBPs). To strengthen effectiveness of supervision, the CBK is conducting stand-alone AML/CFT inspections and has begun to apply enforcement measures alongside provision of sectoral guidance on compliance obligations. The Financial Reporting Center is working jointly with sectoral supervisors to build capacities for supervision of high-risk DNFBPs, including real estate, lawyers, and trust and company service providers, supported by customized supervision tools under development. The authorities are also focusing on outreach and training to supervised entities to strengthen their understanding of AML/CFT preventive measures and obligations.

24. The authorities are continuing to enhance beneficial ownership transparency (MEFP¶¶50 and 57). To increase companies' beneficial ownership submissions to the e-register, Kenya Business Registration Services (BRS) has begun issuing compliance notices, supported by denial of services by BRS until full compliance by active companies in the register is achieved. The authorities are also planning strike-offs of noncompliant entities after a mapping exercise to identify them. BRS is also beginning to reach out to high-risk sectors identified in Kenya's risk assessment of legal persons to strengthen understanding of beneficial ownership information disclosure requirements. A bill to make BRS the regulator of trusts is currently pending Presidential assent. To increase the beneficial ownership compliance in public procurement, the Public Procurement Regulatory Authority (PPRA) continues to conduct trainings and issue letters to noncompliant procuring entities. The authorities are also undertaking a legal review to identify sanctioning powers for the PPRA against procuring entities.

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[34] The macroprudential strategy TA took place in June-July 2024, focused on the strategy to mitigate systemic risks using the CBK's existing powers and tools. The scoping mission for the FSSR took place in May with the main mission planned for November. The FSSR will focus on the financial sector more broadly as well as the institutional arrangements and governance frameworks for financial sector stability.

25. The governance and anti-corruption agenda have seen progress in some areas but significant delays in other areas (MEFP¶¶49 and 53–55). Given perception of widespread corruption, advancing in earnest initiatives to improve governance and transparency, including enacting a strong Conflict-of-Interest Bill in line with best practices, to ensure responsible use of public funds would help elevate trust in government and public financial management. In this regard, the authorities are encouraged to engage in inclusive dialogue with a broad range of stakeholders.

- *Access to Information regulations*. The regulations have become effective through lapse of time.
- *Ethics and Anti-Corruption Commission.* Despite budgetary constraints, progress on asset recovery continues to be strong. Longstanding challenges (financing, adequate equipment, international cooperation etc.) continue to hinder work more broadly.
- *Conflict of Interest bill.* After a considerable delay, the bill was tabled before the Senate and passed with significant amendments on May 16, 2024, weakening the initial draft.[35] Following the National Assembly's rejection of the amendments proposed by the Senate, the bill was referred to a mediation committee.[36] Going forward, the authorities are committing to full automation and publication of asset declarations of high-level public officials.
- *Judiciary*. Strengthening of capacities, including through judicial appointments and adequate infrastructure, is critical for efficient adjudication of corruption cases.
- *Development of standards of digitization and automation of government Records.* The Ministry of ICT and Digital Economy is leading the process, with the Commission on Administrative Justice as a partner. However, the Commission is still awaiting direction from the Ministry.
- *Governance diagnostic.* The authorities have requested a diagnostic assessment, which is a country-tailored assessment focusing on corruption vulnerabilities and governance weaknesses linked to corruption in macroeconomically critical priority areas.[37]

E. The Climate Agenda Under the RSF Arrangement

26. The authorities continue to make progress with implementation of the reform measures (RMs) under the RSF arrangement (Table 11 and MEFP Section I). The rollout of the National Framework for Climate Services (RM1) is under way, with the authorities working on governance structures for climate services reform and providing training to county directors of

[35] Kenya's Ethics and Anti-Corruption Commission has publicly criticized some of the proposed amendments.

[36] Under Article 112 of the Constitution, both Houses appoint a mediation committee consisting of an equal number of members from each House and develop a version of the Bill that both Houses will pass. If the mediation committee fails to agree on a version of the Bill within thirty days, or the version of the Bill is rejected by both Houses, then the Bill is deemed defeated.

[37] This is a TA provided in accordance with the Fund's policy on governance, to help assess the severity and nature of corruption holistically, identify governance weaknesses associated with corruption vulnerabilities across several core state functions most relevant to economic activity, and map out a sequenced, prioritized, and time-bound set of recommendations for strengthening governance, anti-corruption, and the rule of law.

meteorological services. Spatial analysis and climate data management have been strengthened through the Kenya Meteorological Department's online platform. Rollout is ongoing in all counties, supported by the Financing Locally Led Climate Action (FLLoCA) Program.[38]

27. Since the last RSF review, the authorities have implemented two more RMs. With Fund TA, the authorities have added climate issues to the Fiscal Risk Statement (RM2). The analysis was integrated into the 2024 Budget Policy Statement (pages 109–116). The final draft of the Green Finance Taxonomy (RM4)—designed with support from EIB—was circulated for public consultation in early April 2024 and completed in June. In early October, a pilot application of the Kenya Green Finance Taxonomy was launched with ten commercial banks, feedback from which will be incorporated in the final taxonomy in 2025Q1.

28. The authorities are making progress on the remaining RMs.

- *Carbon pricing.* As reported during the previous RSF review, introduction of carbon pricing (RM3) is delayed in view of the socio-political challenges facing new revenue measures. Following an initial discussion with Fund TA team on caron pricing, the authorities indicated that they need to explore feasibility, especially in light of recent social unrest triggered by the 2024 Finance Bill and that engagement with stakeholders will be critical. Implementation of the carbon tax will need to be complemented with a strengthened social safety net to protect the most vulnerable. On the latter, the World Bank is taking the lead.
- *Incorporating climate risks into planning and investment framework*. With TA from the World Bank, integration of climate change and disaster risk methodology in project appraisal (RM5) is ongoing. The insights from this TA have been incorporated into the 2024/2025 budget circular and developments of regulations is underway. Already some expenditure types have been tagged for climate budgeting (RM8), and will be supported by other RMs, including the green taxonomy and green infrastructure reforms.
- *Mobilizing climate-revenue and strengthening efficiency.* The National Green Fiscal Incentives framework, which sets out options for promoting low-carbon, climate resilient, and environmentally sustainable practices, was adopted by the Cabinet in December 2023, but its adoption under sector-specific incentives (RM6) is yet to take place. A formal communication has been sent to all sectors, requesting them to submit proposals that outline their respective priorities under the Green Fiscal Incentives Policy options. On RM7, following power market study (funded by the World Bank), the authorities gazetted a draft electricity market open access regulations in February for public consultation, aiming for open access to the transmission and distribution systems.[39] The authorities indicated that following stakeholder engagement, they have submitted to the Cabinet Secretary for Energy for finalization and gazettement. In June, they gazetted the net metering regulations

[38] On FLLoCA, see Box 2 of IMF Country Report No. 2024/13.

[39] On the open access draft regulation, the World Bank has cautioned that this could have macro-fiscal implications especially for KPLC that has already contracted long-term, fixed power purchase agreements with several independent power producers or for retail consumers who may face higher tariffs due to the possible end of cross-subsidization if the larger, more lucrative customers were to leave KPLC.

approved in May, enabling consumers to generate their own electricity and feed excess power back into the grid, hence promoting the adoption of renewable energy technologies, reducing electricity costs, and enhancing energy security. The authorities noted that the framework for net metering agreement has yet to be finalized by off-taker (KPLC). The authorities report private sector interest in investing in renewable energy projects and are working toward widening the investor base. They expect development of the framework for net metering agreement and market rules, procedures, and operational guidelines to enhance development in renewable energy.

- *Enhancing effectiveness of existing frameworks to support climate finance.* A draft green finance taxonomy underwent public consultation during April–June 2024, while a draft climate risk disclosure framework for the banking sector was released in September 2024 for public consultation (RM9). The authorities are working with commercial banks to determine implementation readiness and capacity-building needs. The green finance taxonomy will help to generate high-quality data required by private sector investors who are also subject to foreign regulatory requirements. In addition, commercial banks launched a climate disclosure project in September 2023 aimed at enhancing the quality and availability of transition-related data in Kenya.[40] Investors will have access to information that can assess the financial implications of climate change on their potential investments, while commercial banks will collate and disclose climate-related information. The authorities aim to enhance transparency and accountability within the financial sector while encouraging businesses to adopt sustainable practices.

29. To reduce Kenya's environmental footprint, the authorities have sought public opinion on proposed levy for sustainable waste management and disposal. Kenya faces costly financing to tackle environmental pollution and sustainable waste management and disposal. The authorities are proposing a levy, dubbed Environment Restoration Levy, on imported final products that contribute significantly to the waste burden. The revenues would be paid directly to the National Environment Restoration Fund and these additional budgetary resources will be utilized in (i) enhancing the waste management system; (ii) implementation of ecosystem restoration programs; (iii) pollution management and enforcement actions; and (iv) development of innovative green technologies, sustainable practices, and eco-friendly alternatives. Staff advised the authorities in introducing such levy to be mindful of (i) any unintended consequences by conducting upfront an economic impact assessment (e.g., on exports, potential spillovers to trading partners, inflation, public finances) in addition to the planned regulatory impact assessment; (ii) possibilities of multiple taxation along the value chain; (iii) the tax rates; (iv) and risk of overestimating associated yields by considering demand elasticities; and (v) administrative and compliance costs, including feasibility of monitoring and enforcement. A careful assessment and building consensus are essential to ensure that future environment-related levies do not face social and political pushback. Embedding the environmental levies in a comprehensive policy package where receipts help fund efforts to transition toward a circular economy (including solid waste management) could not only help

[40] See announcement by the Kenya Bankers Association.

garner social and political support but also render the levies more effective in reducing waste and/or incentivizing recycling.

30. The authorities continue to make progress with other climate change adaptation and mitigation initiatives. FLLoCA resources are supporting conditional transfers to counties for agro-ecological systems, and green jobs for youth and women. The Kenyan authorities are also working with development partners and the Fund to scale up access to global climate funds and to leverage private climate finance through various channels, including PPPs in renewable energy projects. The authorities also continue to work with development partners on design of a green climate fund aimed at financing climate-related investments (particularly at the local government level) and a Sustainable Development Bond.

PROGRAM MODALITIES AND RISKS

31. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and set out future policy commitments, while the Technical Memorandum of Understanding (TMU) clarifies program definitions and the semi-annual targets. Revised targets for the end-December 2024 test date are proposed to reflect an updated macro-framework.

32. The authorities are requesting modifications to total access under the EFF/ECF arrangements, composition of financing, and phasing.

- **Access.** With Kenya's success in issuing a Eurobond in February to early buyback a significant share of the 2024 Eurobond coupled with financing from Trade Development Bank (US$506 million) and the World Bank (US$1.2 billion in Development Policy Finance), the exceptional BoP needs that were anticipated at the time of sixth EFF/ECF reviews have dissipated. In view of this, and given some upside potentials to FY2024/25 external financing (see ¶36), staff and the authorities consider access under the EFF/ECF arrangements within the normal access limits (excl. RSF) as sufficient to meet the residual BoP needs during the remainder of the EFF/ECF arrangements.[41] Thus, a reduction in the total remaining access by 40.3 percent of quota (SDR218.73 million) is requested consistent with bringing Kenya's cumulative access to Fund resources under the normal limit (600 percent of quota, including the 2020 RCF financing) (Table 7a). Lower cumulative access would also somewhat reduce Kenya's debt to multilateral institutions.
- **Financing composition (PRGT-to-GRA ratio).** The authorities' request restores a 1:2 mix of PRGT-to-GRA financing, consistent with Fund policy on blended access. This is to be achieved through reduction of access by 61.97 percent of quota (SDR336.39 million) under the EFF arrangement and augmentation of access by 21.67 percent of quota

[41] At the sixth EFF/ECF reviews both GRA exceptional access and Policy Safeguards for High Combined Credit (PS-HCC) were triggered.

(SDR117.66 million) under the ECF arrangement. Higher PRGT access would help in lowering interest payments to the Fund (about SDR230 million over 2024–35).[42]

- **Rephasing of access.** Rephasing of the remaining EFF and ECF access is proposed, consistent with the BoP needs (excl. RSF) arising from external financing needs and the need for building FX reserves (Text Table 2 and Table 7a). Except for the augmentation at the fifth EFF/ECF reviews, the EFF/ECF financing, including the remaining amounts, is made available to the government as budget support through on-lending in local currency by the CBK.

Text Table 2. Kenya: Proposed Disbursements

	At the sixth EFF/ECF reviews				Proposed disbursements				Of which: budget support				Of which: BoP support			
	EFF	ECF	RSF 1/	Total	EFF	ECF	RSF 1/	Total	EFF	ECF	RSF 1/	Total	EFF	ECF	RSF 1/	Total
	In percent of quota				In percent of quota				In percent of quota				In percent of quota			
Seventh EFF/ECF reviews	119.20	11.55	16.67	147.42	16.39	17.26	16.67	50.32	7.69	10.96	16.67	35.32	8.70	6.30	0.00	15.00
Eighth EFF/ECF reviews	14.50	8.05	33.33	55.88	16.39	17.26	0.00	33.66	7.69	10.96	0.00	18.66	8.70	6.30	0.00	15.00
Ninth EFF/ECF reviews	14.50	8.05	16.67	39.22	53.45	14.80	50.00	118.25	44.75	8.50	50.00	103.25	8.70	6.30	0.00	15.00
Total remaining access	**148.20**	**27.65**	**66.67**	**242.52**	**86.24**	**49.32**	**66.67**	**202.22**	**60.14**	**30.42**	**66.67**	**157.22**	**26.10**	**18.90**	**0.00**	**45.00**
	In millions of SDR				In millions of SDR				In millions of SDR				In millions of SDR			
Seventh EFF/ECF reviews	647.02	62.69	90.47	800.17	88.95	93.69	90.47	273.11	41.77	59.49	90.47	191.73	47.22	34.20	0.00	81.42
Eighth EFF/ECF reviews	78.71	43.69	180.93	303.32	88.95	93.69	0.00	182.64	41.77	59.49	0.00	101.26	47.22	34.20	0.00	81.42
Ninth EFF/ECF reviews	78.71	43.68	90.47	212.85	290.15	80.34	271.40	641.88	242.88	46.14	271.40	560.42	47.22	34.20	0.00	81.42
Total remaining access	**804.43**	**150.06**	**361.87**	**1316.35**	**468.05**	**267.71**	**361.87**	**1097.63**	**326.42**	**165.12**	**361.87**	**853.40**	**141.67**	**102.59**	**0.00**	**244.26**

Note: Kenya's quota is SDR542.8 million.
1/ For RSF, this table differs from Table 7b of the report which shows earliest availability date for a disbursement. Actual RSF disbursements are contingent on completion of the associated reform measures (RM) even if they are available as per Table 7b. For the pending RMs, the associated disbursements are expected at the time of the ninth EFF/ECF reviews.

33. A redesign of the QPC on fiscal revenues is proposed (MEFP Table 1, TMU¶¶3 and 9). A new QPC (floor) on ordinary revenues (i.e., tax and nontax revenues combined, excluding the earmarked nontax revenues classified under AiA) is proposed while the target on tax revenues is proposed to be monitored as an indicative target, both effective from the end-December 2024 test date.[43] In view of factors that are beyond the authorities' direct control but that impact tax collections, the authorities consider the proposed broadening of the scope of the revenue QPC would widen their policy options and impart more flexibility in addressing any potential revenue shortfalls stemming from lower tax collections. This proposal, however, still retains the importance of tax measures as central to the authorities' overall revenue mobilization objectives as the base for ordinary nontax revenue is small.

34. Waivers of nonobservance of performance criteria, and modifications to program conditionalities are requested as listed below (MEFP Tables 1–2, and TMU).

- Waivers of nonobservance for the tax revenues QPC for the end-December 2023 and end-June 2024 test dates and for the end-June 2024 QPC on primary budget balance on the basis of corrective action taken through the passage of the Supplementary FY2024/25

[42] Financing under the existing ECF arrangement is available at zero interest rate. ECF credit has a longer grace period for repayment than the EFF arrangement. Charges and surcharges on the EFF credit will be lower going forward following the IMF Executive Board's conclusion of the Review of Charges and Surcharge Policy on October 11.

[43] At program request and the first EFF/ECF review, tax revenue was an indicative target (floor).

Budget in July, consistent with program parameters. The authorities commit to address debt vulnerabilities (a key program objective) by pursuing fiscal consolidation to deliver a primary balance that helps in reducing the debt/GDP level in 2024 and stabilizing it in 2025 in the context of the Supplementary FY2024/25 Budget and offsetting any new pressures to preserve the primary balance target, including through a second Supplementary Budget;

- With effect from end-December 2024, establishing a new QPC on ordinary revenues (TMU¶3 and 9) and redesignating the target on tax revenues as an indicative target (¶33);
- Modifications of the end-December 2024 QPCs on primary budget balance, net international reserves, and present value of contracting or guaranteeing of new external debt; and
- Deletion of the adjustor to the QPC on net international reserves (TMU¶11) related to extra-ordinary support to Kenya Airways given novation of its guaranteed external debt;
- Rescheduling of two SBs due to additional time needed and establishment of five new SBs.

35. RSF financing. The RMs remain the same and as strong as envisaged at the time of Kenya's RSF approval, and their phasing is appropriate. The authorities are requesting disbursements associated with the two RMs implemented since the previous RSF review (LOI and Table 7b). RSF financing is for budget support and not intended to cover the BoP gap identified under the EFF/ECF arrangements.

36. Financing assurances. The remainder of the EFF/ECF arrangements (less than six months) is fully financed (Table 6). In 2024, in addition to the US$1.5 billion Eurobond issuance, Kenya has secured US$506 million in commercial loans from the Trade Development Bank and budget support loans from the World Bank (US$1.2 billion Development Policy Operation), the African Development Bank (US$79 million), and Germany (€60 million). Through the remaining period under the program, Fund is the only source for budget support under the baseline while non-Fund budget support loans are expected to materialize in 2025Q2, after the expiration of the EFF/ECF arrangements. However, there are upside potentials (i.e., not included in the baseline) to external financing in FY2024/25 as the authorities continue to pursue alternative sources.[44]

37. The program raises significant enterprise and reputational risks for the Fund, reflecting risks to Kenya's fiscal policy, debt sustainability, and capacity to repay (¶¶8, 10–12, and 39). Enterprise (both financial and nonfinancial) and program risks have increased since the sixth EFF/ECF reviews arising from links drawn between the Fund program and recent developments, and the uncertainties around the authorities' ability to build the needed social and political consensus for a credible fiscal consolidation strategy that would deliver a revenue-based fiscal adjustment path consistent with Kenya's debt anchor, preserve debt sustainability, and ensure capacity to repay the Fund. Risks to the spending measures under the Supplementary FY2024/25

[44] These possibilities include budget support loan by the Africa Development Bank, samurai bonds (guaranteed by Nippon Export and Investment Insurance, MoU signed), panda bonds (guaranteed by Asian Infrastructure Investment Bank of which Kenya recently became a member), Sustainable Development Bond (World Bank-supported), and bilateral financing on nonconcessional terms.

Budget are already materializing amid new pressures. The authorities' efforts to introduce new revenue measures are also exposed to elevated risks. These risks could be somewhat mitigated by timely deployment of contingency measures, as needed (MEFP¶18), and strengthening the external buffer. The policy package under the program, the proposed modifications in access to Fund resources, engagement with relevant stakeholders, and a tailored capacity development strategy to help deliver the reforms would help mitigate somewhat the elevated enterprise and financial risks to the Fund.[45] Continued program support would also help limit any potential political and economic spillovers to the region.

38. Fiscal safeguards review (FSR). An FSR mission concluded in June 2024. It identified gaps in the legal framework for in-year expenditure revisions and highlighted that the absence of a TSA limits the NT's oversight over government bank accounts. While the expenditure control model is adequate for the budgetary central government, extrabudgetary units and SCs face financial management and control issues. The external audit by the Office of the Auditor General is broadly aligned with international standards, although there is room to improve timeliness of audit reporting. Separately, the implementation of internal audit recommendations is suboptimal, while the independent oversight by the Ministerial Audit Committees (MACs) over internal audit functions in Ministries, Departments, and Agencies (MDAs) is not yet effective across all MDAs. The authorities should strengthen the legal framework and practices for in-year budget revisions, develop a TSA (Cabinet approval was granted earlier in the year) to support cash management, strengthen the oversight of extrabudgetary units and SCs, and enhance the independent oversight by MACs. Work is underway to finalize the FSR report.

39. Kenya's capacity to repay the Fund is adequate but is subject to elevated risks and continues to hinge on strong policy implementation (Tables 8–10, Figure 8, and DSA). Under Fund policies, the requested augmentation of ECF access, irrespective of the lowering of EFF access, triggers enhanced safeguards for debt sustainability and capacity to repay.[46]

- At end-2023, the share of Kenya's debt owed to the Fund and other multilaterals was about 50 percent of its total external public debt (Tables 9 and 10) and is projected to reach about 62 percent through 2035 under the baseline. These ratios are slightly above the median but below the 75th percentile for past PRGT programs. The share of Kenya's total obligations to the Fund relative to total external public debt service would peak at 14.9 percent until 2035. There is no collateralized public and publicly guaranteed external debt.
- The peak outstanding credit from the Fund (excl. RSF) is projected to reach SDR3.26 billion, or 600 percent of quota by the end of the EFF/ECF arrangements. The ratios of outstanding credit (excl. RSF) to GDP and FX reserves would peak at about 3.5 percent and 48 percent in 2025, respectively, both exceeding the 75th percentile of the Fund's past Upper Credit Tranche (UCT)-quality arrangements for LICs (Figure 8).[47] Non-RSF debt service to the Fund

[45] See Annex IX of IMF Country Report No. 2023/266.

[46] On the enhanced safeguards, see details here.

[47] Including the RSF, projected Fund credit would reach SDR3.66 billion (675 percent of quota) by the end of the EFF/ECF arrangements with debt ratios worsening somewhat.

would peak by 2029 at about 3.4 percent of exports and 2.4 percent of fiscal revenues, both well above the top quartile of past UCT quality arrangements for the PRGT-eligible countries.

- The elevated levels of scheduled debt service to the Fund may pose risks to capacity to repay over the medium term in the context of high overall external debt service obligations. Materialization of some of the downside risks, including difficulties to sustain fiscal adjustment and export performance, have increased pressure on Kenya's capacity to repay the Fund. However, risks are mitigated by Kenya's continued access to concessional and nonconcessional financing, resilience in remittances, and a strong track record of servicing debts, the authorities' commitment to a multi-year fiscal consolidation strategy despite recent setbacks, exchange rate flexibility, and an adequate level of FX reserves.
- A key objective of the program is to undertake a revenue-driven fiscal consolidation and put public debt/GDP on a steady downward path, consistent with achieving Kenya's public debt anchor of 55±5 percent of GDP in present value terms by 2028. All debt burden indicators are on a downward path and the ones currently with breaches are expected to fall below their thresholds over time.

STAFF APPRAISAL

40. Kenya continues to be one of the faster growing economies in the region. The recovery in growth in 2023 was strong, supported by a rebound in agriculture while overall nonagricultural growth was somewhat slower, including in the secondary sector. On the demand side, total investments declined for the second consecutive year, somewhat impacting capital formation and medium-term growth prospects. 2024 growth, projected at 5 percent, will remain strong, but slower than in 2023. Inflation has eased to the target faster than expected and is projected to stay within the target range under the baseline.

41. With new spending pressures already materializing, the spending cuts in the Supplementary FY2024/25 Budget will not be sufficient to contain the fiscal deficit in the near term, necessitating additional measures. The Supplementary FY2024/25 Budget aimed to narrow the gap from the withdrawal of tax measures in 2024 Finance Bill through additional spending cuts, providing a limited window to build consensus for a revenue-led medium-term fiscal consolidation. However, consideration for revenue measures has become critical as new spending pressures have already materialized, including the clearance of unfunded spending carryovers from FY2023/24, that more than offset the savings envisaged in the Supplementary. While the authorities' efforts to introduce new revenue measures is a welcome development, further careful spending prioritization and rationalization would be needed to achieve the envisaged deficit target. The risks to the revenue package and spending compression remain significant. Deep cuts in development spending and intermediate consumption are not sustainable and are likely to impact growth and public service delivery. Similarly, while cuts in transfers to SCs and other entities can help address concerns on inefficient and wasteful spending, they should not impact SCs' service delivery or financial health.

42. Revenue-based fiscal consolidation remains central to durably reduce debt vulnerabilities while providing space to deliver essential public goods and services. A large and sustained fiscal effort focused on spending rationalization in the near term and revenue mobilization in the medium term remains key to effective public service delivery while also bringing public debt on a downward path consistent with Kenya's debt anchor. Building social consensus on a revenue-based fiscal strategy necessitates strengthening accountability, transparency, and a revenue mobilization path—guided by the MTRS— that makes the tax regime more efficient, equitable, and progressive. This should help pave the way to restore public trust and tax morale for renewed efforts to improve revenue mobilization that can be sustained over the medium term. Measures that yield revenue in the short term but risk undermining tax discipline, such as the use of tax amnesties, should also be avoided. KRA should enhance data analysis capability by beginning with matching its own internal data sources between customs and domestic taxes.

43. Spending rationalization should also be put on a sustainable footing, underpinned by reforms and reducing inefficiencies, and create space for Kenya's large social and development needs. To this end, efforts to streamline the wage bill by rationalizing allowances, implementing a common HR and payroll system, and ensuring that CBAs are aligned with available resources should generate substantial, permanent savings. Likewise, public procurement and state corporation reforms should improve spending efficiency and reduce transfers and intermediate consumption. In addition, to help sustain social cohesion in the context of meeting fiscal consolidation needs, it will be essential to safeguard and strengthen social safety nets for effective implementation of social protection and to accelerate actions toward poverty alleviation and human capital development outcomes.

44. Contingency plans—that do not rely on larger-than-expected borrowing and can be deployed in a timely manner to offset potential fiscal slippages—remain vital. This is important in a context of elevated uncertainties from global, regional, domestic sources, including legal challenges to policy decisions, and climate shocks, all of which pose significant risks to the fiscal consolidation strategy and debt sustainability. Recourse to additional non-debt creating resources (revenues and/or divestment from SCs) could mitigate risks to the baseline.

45. Kenya remains at a high risk of debt distress and uncertainties around fiscal adjustment have elevated debt sustainability concerns. Despite some gains from the recent shilling strength, the medium-term debt dynamics have worsened since the sixth EFF/ECF reviews following a deteriorated outlook for revenues, underperformance in exports, and larger nonconcessional borrowing, although the latter helped address an exceptional BoP need earlier in the year. Growing financing needs, elevated borrowing costs, continued accumulation of domestic claims, and shortening maturities are adding to debt vulnerabilities. Debt sustainability remains contingent on robust export performance over the medium term and delivery of a credible revenue-based fiscal consolidation path that envisages sustained, higher primary fiscal surpluses over the medium term, further development of the domestic debt market and improvements in public debt management. Securing concessional financing could help with external financing pressures, reduce domestic borrowing needs and costs, and mitigate adverse risks to debt sustainability, including

from natural disasters. Lower domestic borrowing needs would also help in reducing banks' risks associated with sovereign exposure.

46. The current tight monetary policy stance is appropriate and should continue to be driven by the price stability objective while ensuring external sustainability. While headline inflation has eased, core inflation remains sticky. Monetary policy should continue to be data driven and maintain a tightening bias in the near term. Efforts at further improvement in the monetary policy operational framework are welcome.

47. Mutually reinforcing fiscal and monetary policies are key to sustain the positive market sentiment since the Eurobond issuance and sustain the improvement in the external position. The external position underwent notable adjustments in 2023 that were sustained in the first half of 2024. Exchange rate flexibility and further development of the FX market and improvements in its efficiency should enhance resilience to external shocks, support exports, and mitigate downside risks to FX reserves. Resolving structural issues that enhance competitiveness would also support exports, which together with strategies for reserves build up and intervention should help sustain adequacy of FX reserves over the medium term. The CBK's efforts at building FX reserves are welcome.

48. Risks in the financial sector require close monitoring and strengthened oversight. Banks' FX, sovereign, and credit risks remain elevated and require close monitoring and strengthened oversight. Nonperforming loans are high. Resolution of government's pending bills would help with improving asset quality. Implementing the recommendations of the recent macroprudential strategy TA and ongoing Financial Sector Stability Review will aid the authorities in mitigating financial stability risks.

49. Further efforts are needed to strengthen AML/CFT, governance, and anti-corruption frameworks. The authorities should continue their work to address their FATF action plan items and strengthen the effectiveness of the AML/CFT regime, in particular risk-based supervision of DNFBPs in high-risk sectors. Measures to improve compliance with beneficial ownership reporting are welcome. On the anti-corruption agenda, staff urged the authorities to ensure the Conflict-of-Interest bill is in line with international standards and their policy commitment when enacted. Strengthening the judiciary's capacity is also critical for efficient adjudication of corruption cases. . The authorities should engage in inclusive dialogue with a broad range of stakeholders in improving governance and anti-corruption frameworks which is vital for the credibility of fiscal reforms, enhancing the efficiency of spending, and building public trust. In this context, staff welcomes the authorities' request for a governance diagnostic.

50. Sustained reform momentum under the RSF arrangement will support Kenya's efforts in building resilience to climate shocks. The authorities have implemented two reform measures since the last review under the arrangement and are making progress on the remaining reform measures. Staff welcomes the authorities' efforts at attracting climate finance.

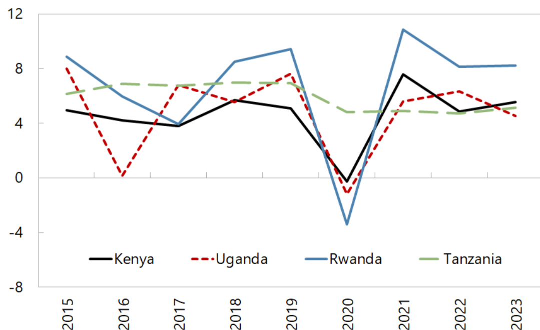
51. Staff supports the authorities' requests for completion of the seventh and eighth EFF/ECF reviews; reduction of access under the EFF arrangement, augmentation of access under the ECF arrangement, and rephasing of both EFF and ECF access; redesigning of the program target on fiscal revenues and modifications of some other program targets; and waivers of nonobservance for the performance criteria that were not met.

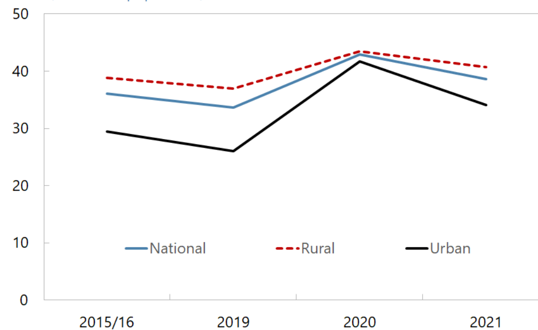
52. Staff assesses that the second and fourth reform measures under the RSF arrangement have been implemented and supports the request for disbursements of the associated amounts, totaling SDR90.4666 million under the arrangement.

Figure 1. Kenya: Real Sector Developments

Kenya's growth remains resilient amid multiple shocks and has generally followed the regional peers....

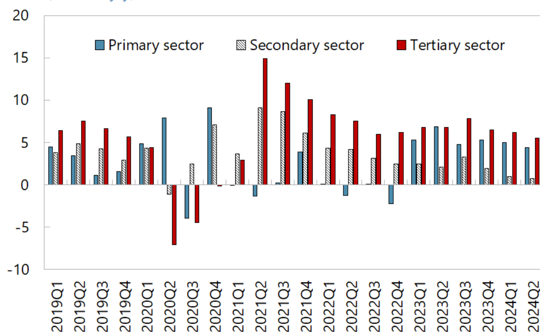
... helping lower poverty until the COVID-19 shock hit.

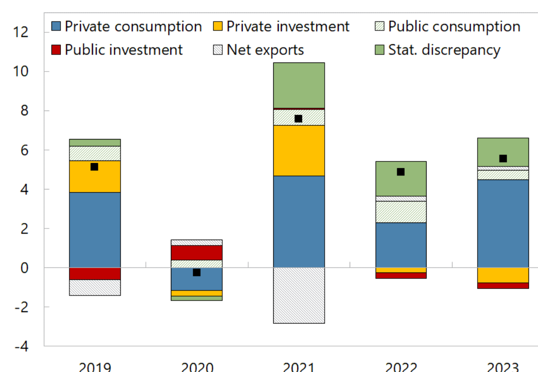




A strong rebound in agriculture after two years of drought and resilience in the services sector supported growth.

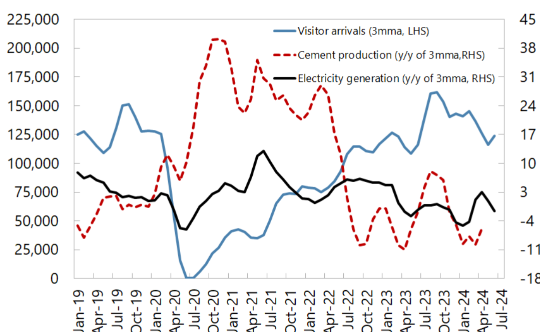
From the expenditure side, 2023 growth was driven by private consumption, while investments declined for the second consecutive year.

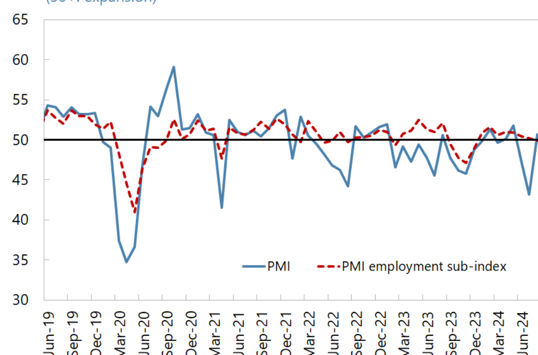




Tourist arrival is strong, cement production growth was negative early in the year, and growth in electricity generation had decelerated by early 2024Q3.

The PMI reading has recovered from the lows seen during the public protests of June and July.

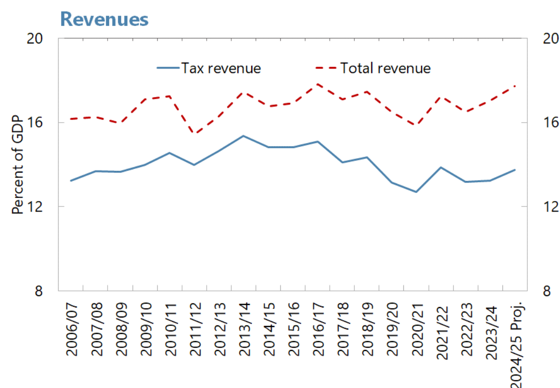




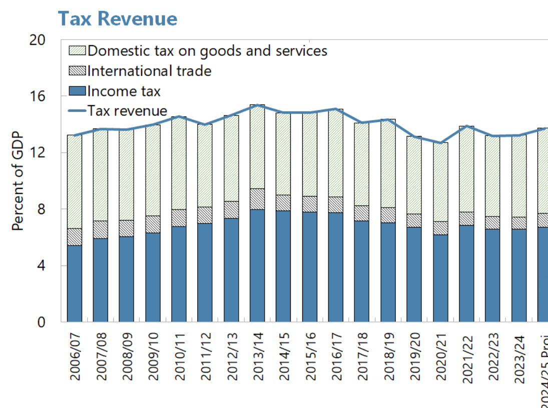
Sources: Kenyan authorities; Markit Economics; and IMF staff calculations and projections.

Figure 2. Kenya: Fiscal Sector Developments

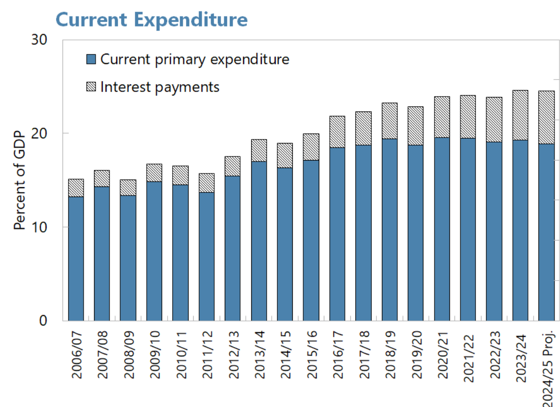
Recent gains in tax/GDP ratio halted in FY2022/23 and FY2023/24....



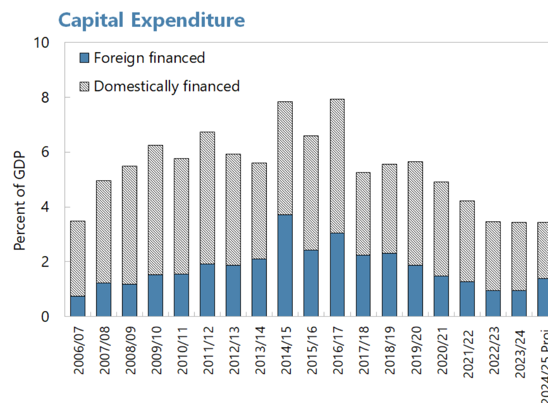
Policy measures are aimed at boosting collections of domestic taxes.



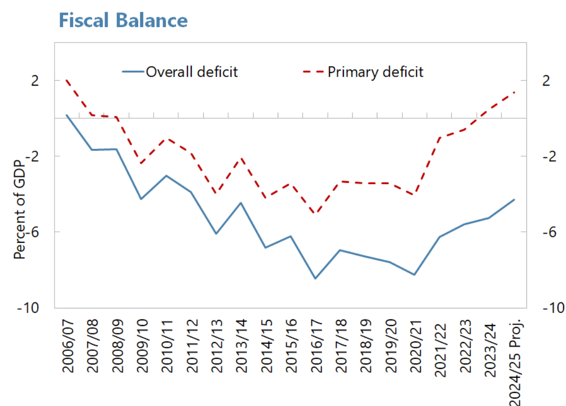
As challenges in mobilizing revenue persisted, the execution of current primary expenditure slowed only marginally....



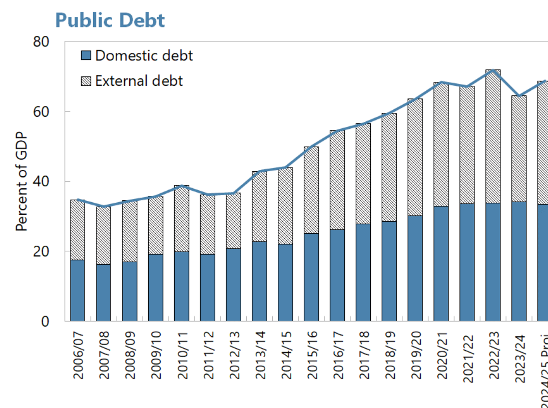
... while capital expenditure has declined sharply as a share of GDP.



Despite recent slippages, the fiscal deficit has improved over the past few years...



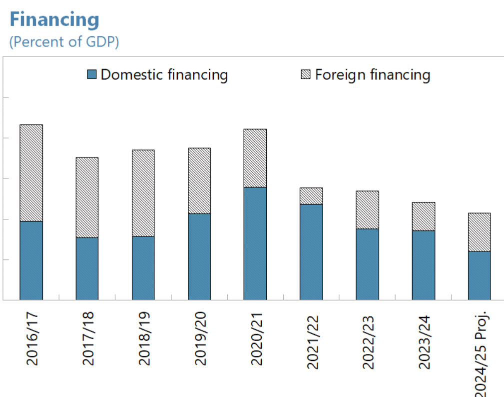
...helping contain further accumulation of public debt that remains near its historical high.



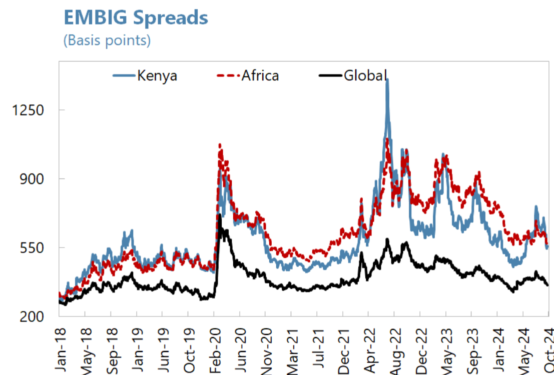
Sources: Kenyan authorities; and IMF staff calculations.

Figure 3. Kenya: Financing

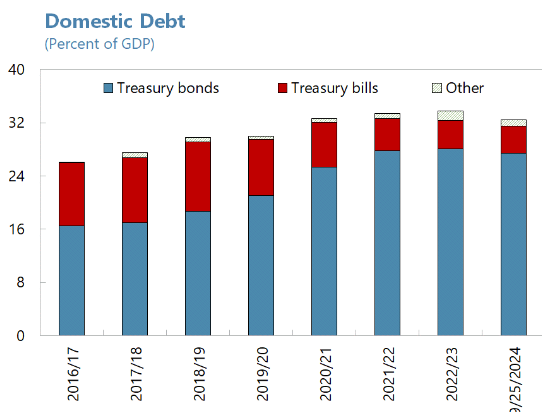
Share of external financing has risen from a low in FY2021/22....



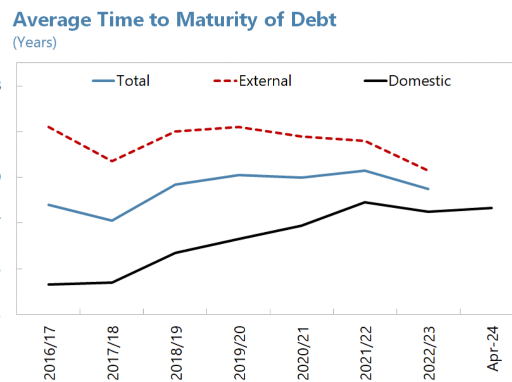
... helped by multilateral support and re-entry into the global bond markets in early 2024.



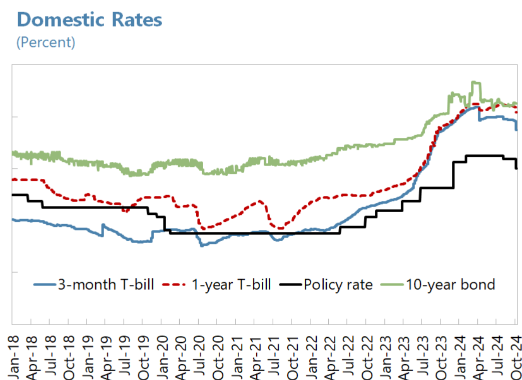
The bulk of the domestic debt remains in Treasury bonds....



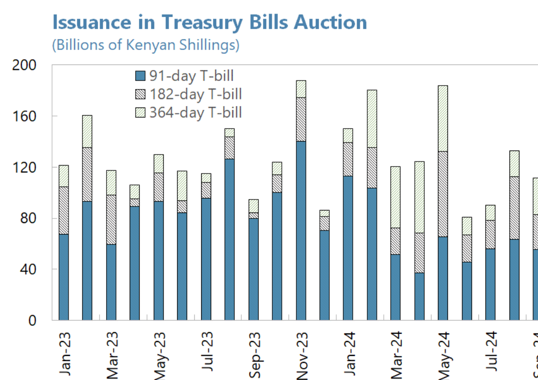
...benefitting from past efforts that have locked in improvements in the maturity of Kenya's domestic debt.



Over the past year, Treasury yields have seen a notable increase, reflecting a tighter monetary policy stance and tax revenue shortfalls....



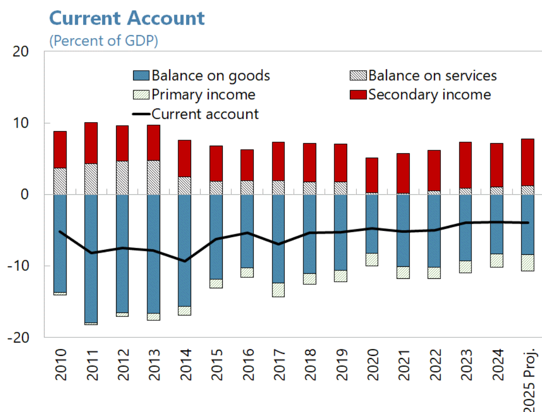
... while the share of the 91-day T-bill in total T-bill issuances is up.



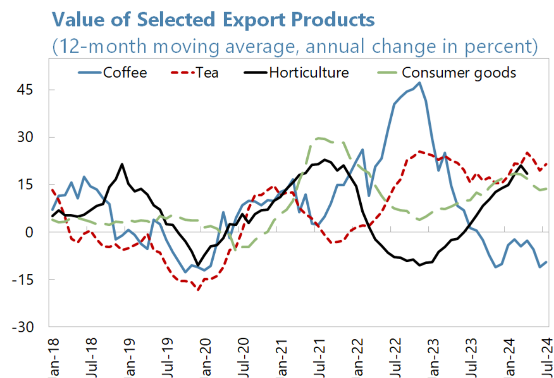
Sources: Kenyan authorities; Bloomberg L.P; and IMF Staff calculations.

Figure 4. Kenya: External Sector Developments

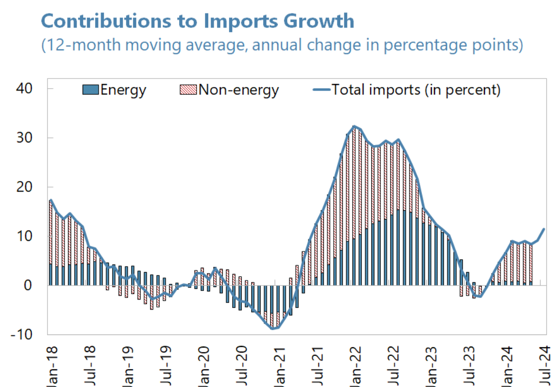
The current account deficit has narrowed on account of slower nonfood imports, stronger tourism and remittances.



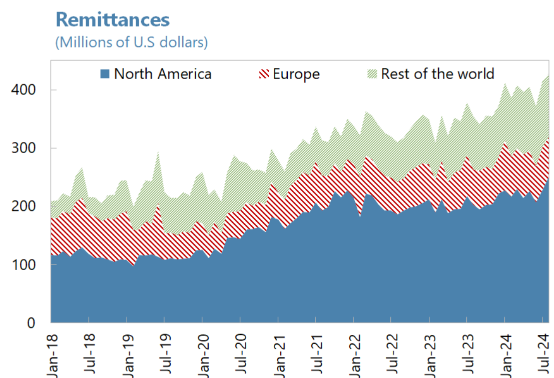
Horticulture, tea, and manufactured exports are holding up, while coffee exports have slowed down considerably.



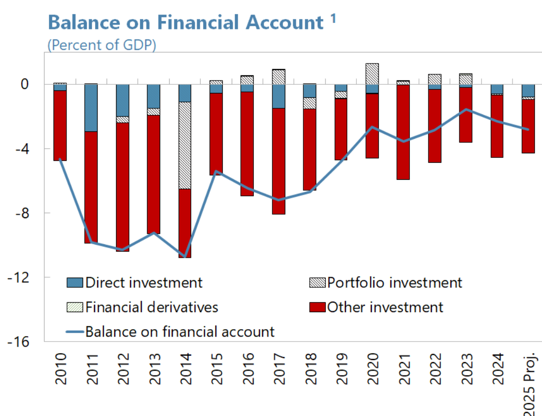
On goods imports, energy imports are off their peaks while nonenergy imports are recovering.



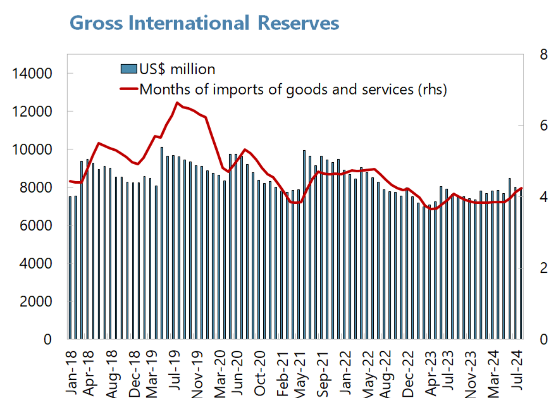
Remittances remained resilient.



Net financial inflows remain low across types of flows as compared to their pre-COVID-19 levels.



FX reserves remain adequate.

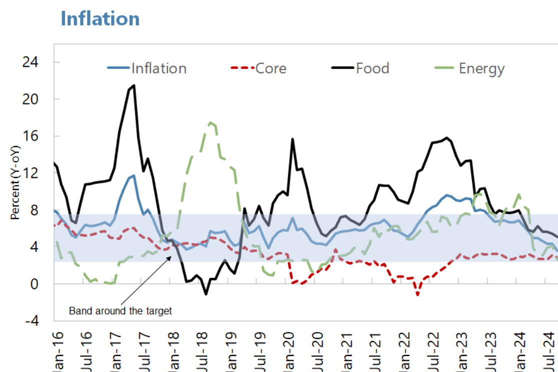


Sources: Kenyan authorities; and IMF staff estimates.

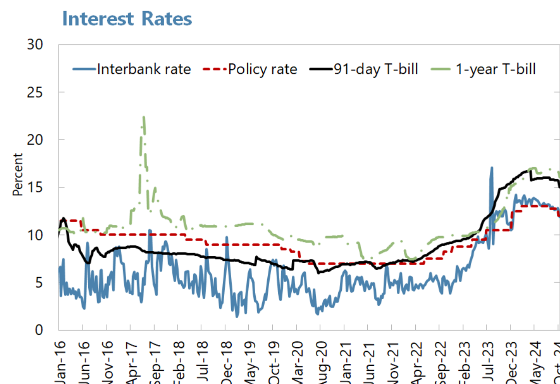
[1] Negative entry means net inflows.

Figure 5. Kenya: Monetary and Exchange Rate Developments

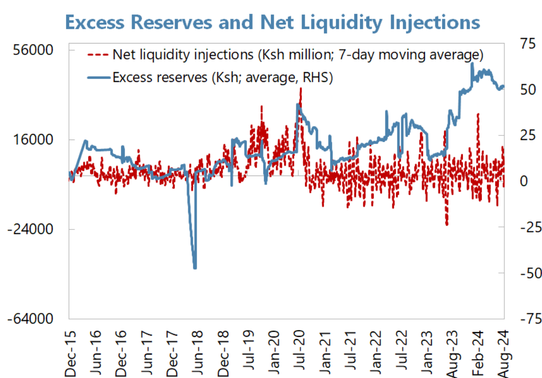
Inflation has eased inside the target bans on lower food and energy inflation.



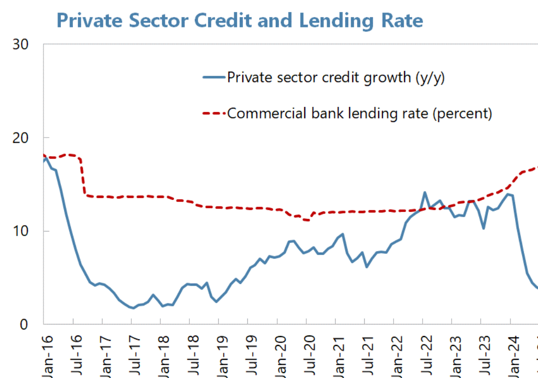
Policy rate was eased in August by 25 basis points and in October by 75 basis points after a 600 basis points cumulative tightening since mid-2022.



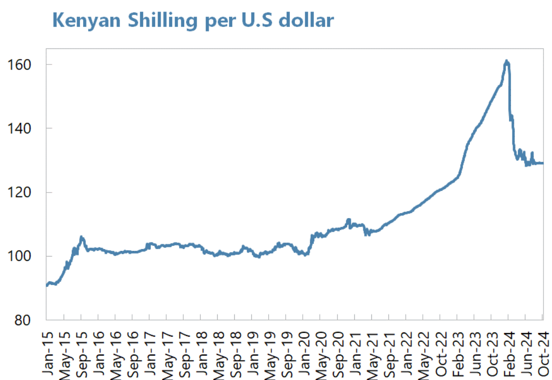
Excess reserves increased.



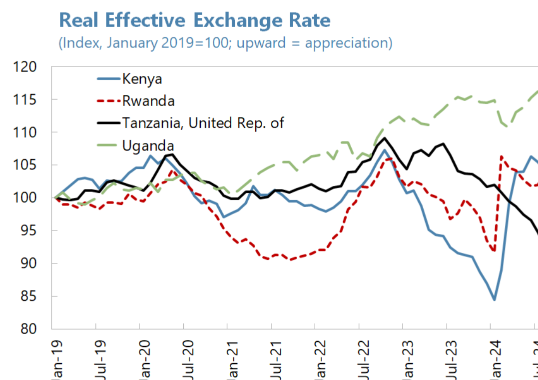
Banks' lending rates are up, and credit growth has decelerated, including from exchange rate appreciation.



The shilling has reversed last year's significant depreciation against the U.S. dollar…



…leading to a sharp real appreciation in recent months.

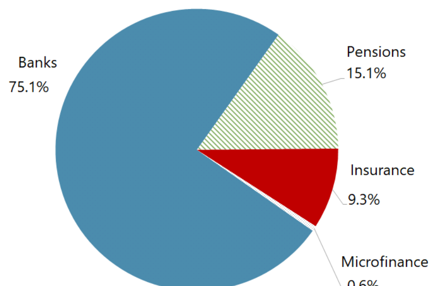


Sources: Kenyan authorities; and IMF staff calculations.

Figure 6. Kenya: Financial Sector

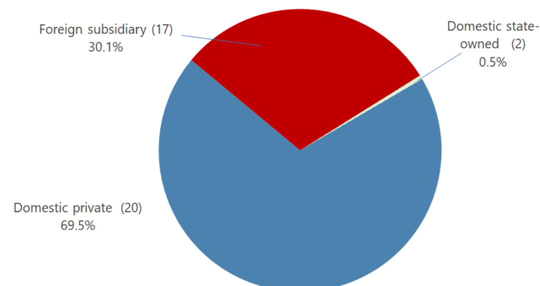
Financial sector is dominated by banks...

Financial Sector Structure
(March 2024)



...of which majority are domestic private banks.

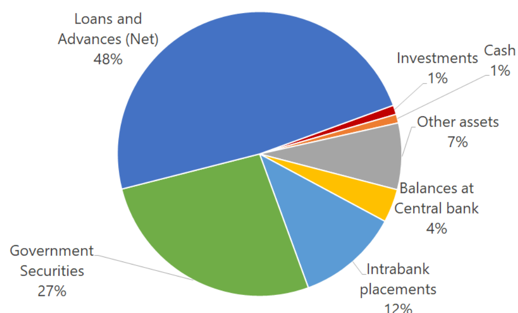
Banking System Structure
(June 2024) 1/2/



1/ Total net assets of Ksh.7.6 trillion (US$55 billion, 45 percent of GDP).
2/ Number of banks in brackets; percentages are for net assets.

After loans, government securities account for a significant share of banking sector assets....

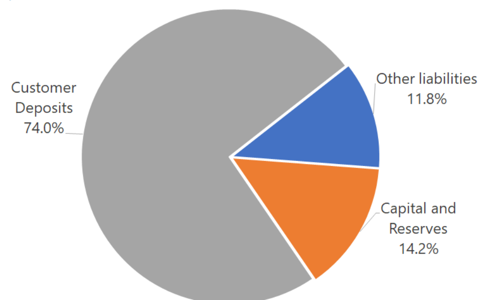
Banks' Assets
(June 2024) 1/



1/ Total net assets of Ksh.7.6 trillion.

...while funding is largely from deposits.

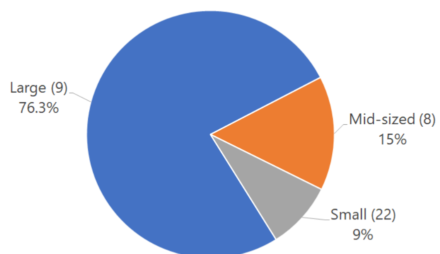
Banks' Liabilities
(June 2024) 1/



1/ Total liabilities of Ksh. 7.6 trillion.

Nine banks account for 76 percent of banking sector assets...

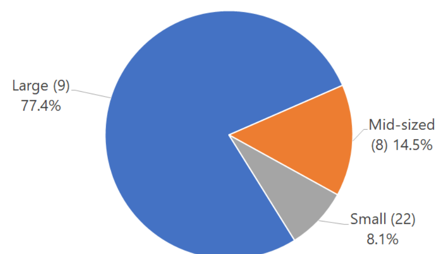
Banking System Assets by Tier Groups
(June 2024) 1/ 2/



1/ Total net assets of Ksh.7.6 trillion (US$55 billion, 45 percent of GDP).
2/ Number of banks in brackets; percentages are for assets.

...and 77 percent of deposits.

Banking System Deposits by Tier Groups
(June 2024) 1/ 2/

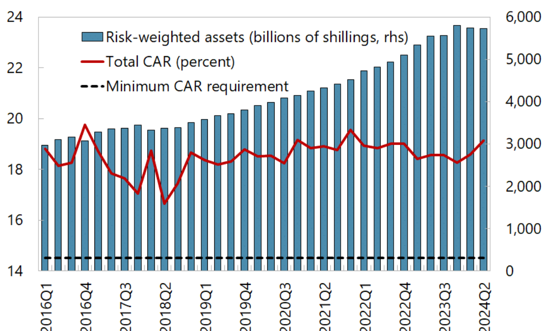


1/ Total deposits of Ksh.5.6 trillion.
2/ Number of banks in brackets; percentages are for customer deposits.

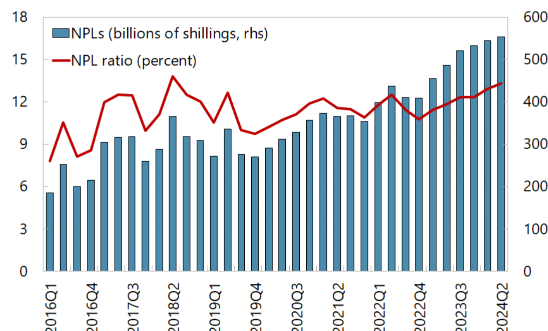
Source: Central Bank of Kenya.

Figure 7. Kenya: Financial Sector Developments

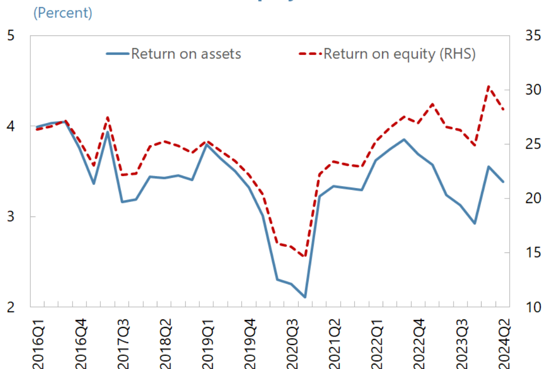
Capital adequacy ratios for the banking sector remain above regulatory requirements….



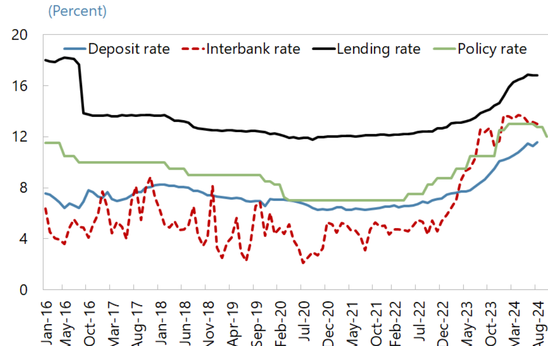
… but nonperforming loans have risen further.



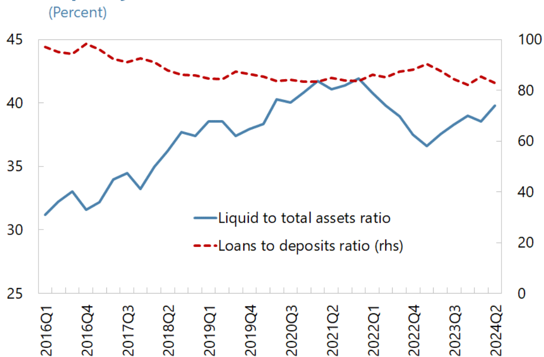
Profitability remains high, supported by non-interest income and regional expansion…



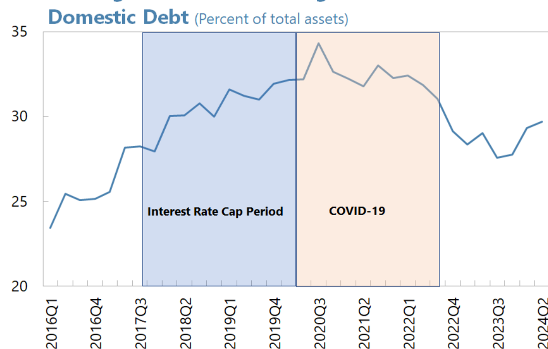
… as well as by significant spreads between deposits and lending rates.



Banking sector liquid assets ratio remains sizable …



…as do holdings of government securities



Sources: Central Bank of Kenya; and IMF staff calculations.

[1] NPLs= Gross NPLs minus accrued interest.

[2] Based on IMF, *Financial Soundness Indicator* database.

Figure 8. Kenya: Capacity to Repay Indicators Compared to Upper Credit Tranche Arrangements for PRGT Countries

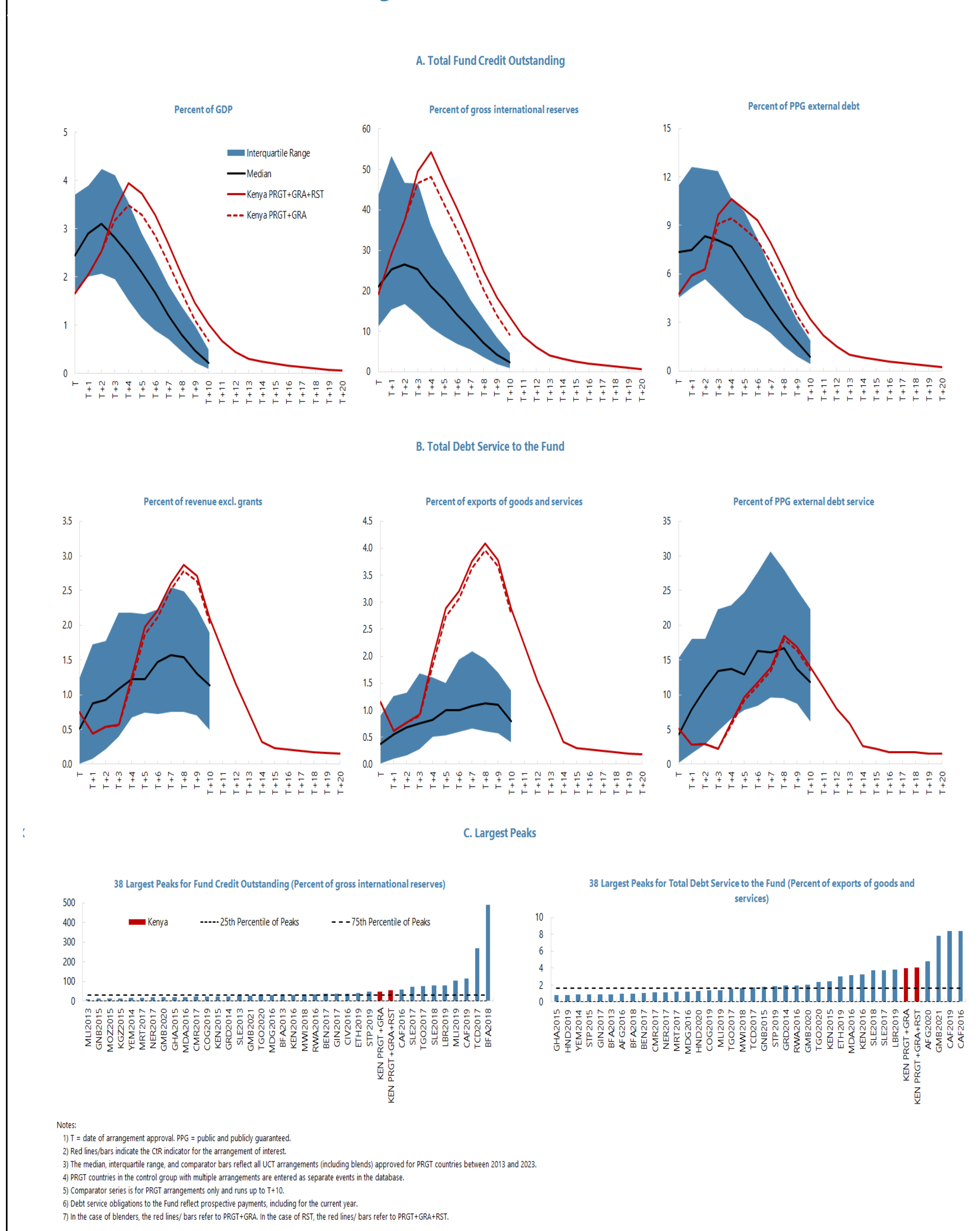


Table 1. Kenya: Selected Economic Indicators, 2021–29

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.	Act.	6th Rev.	Act.	6th Rev.	Proj.	6th Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Output, prices, and exchange rate												
Real GDP	7.6	4.9	5.1	5.6	5.0	5.0	5.3	5.0	5.0	5.0	5.0	5.0
GDP deflator	4.3	7.0	8.2	6.1	7.1	4.5	5.3	5.0	4.9	4.9	4.8	4.9
CPI (period average)	6.1	7.6	7.7	7.7	7.0	5.0	5.2	5.3	5.1	5.1	5.0	5.0
CPI (end of period)	5.7	9.1	7.2	6.6	6.3	4.5	5.2	5.3	5.1	5.0	5.0	5.0
Terms of trade (goods; deterioration, –)	-2.2	2.8	5.5	-5.2	1.5	4.3	0.2	0.1	0.0	0.0	-0.9	-0.1
Exchange rate (Kenyan shilling/US$, average, depreciation, –)	-3.0	-6.9	.	-15.4	.	.	.	.	.	.	.	.
Real effective exchange rate (average, depreciation, –)	-2.6	2.2	.	-8.3	.	.	.	.	.	.	.	.
Money and credit												
Broad money (M3)	6.1	7.1	13.8	21.3	12.4	5.6	10.8	10.3	10.2	10.1	10.0	10.2
Reserve money	11.0	-1.4	6.4	15.8	11.1	1.7	8.0	17.0	3.3	10.1	10.0	10.2
Credit to non-government sector	8.6	12.5	11.1	13.9	10.8	3.3	12.6	12.4	11.2	10.7	10.2	11.3
M3/GDP (percent)	35.2	33.6	33.9	36.4	33.9	35.0	33.9	35.0	35.0	35.0	35.0	35.0
	(Percent of GDP, unless otherwise indicated)											
Central government budget [1]												
Total revenue, grants and unidentified tax policy measures	16.1	17.5	16.7	16.7	19.0	17.2	19.1	18.0	18.7	19.3	19.6	19.8
Tax revenues	12.7	13.9	13.2	13.2	15.1	13.2	15.2	13.7	14.3	14.9	15.2	15.4
Nontax revenues	3.1	3.4	3.3	3.3	3.7	3.8	3.7	4.0	4.1	4.1	4.1	4.1
Grants	0.3	0.2	0.2	0.2	0.3	0.1	0.3	0.2	0.3	0.3	0.3	0.3
Expenditure and unidentified offsets	24.4	23.7	22.6	22.5	23.8	22.8	22.7	22.3	22.7	22.9	22.9	22.7
Current	19.5	19.5	19.1	19.1	19.2	19.3	17.3	18.8	18.4	18.2	17.9	17.7
Development and net lending	4.9	4.2	3.5	3.5	4.6	3.4	5.4	3.4	4.3	4.7	5.0	5.0
Primary balance	-4.0	-1.0	-0.6	-0.6	0.7	0.1	1.7	1.4	1.5	2.1	2.4	2.5
Adjustments to cash basis	0.0	0.0	0.3	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance [2]	-8.3	-6.2	-5.6	-5.6	-4.7	-5.3	-3.5	-4.3	-4.0	-3.6	-3.3	-2.9
Excluding grants	-8.5	-6.5	-6.0	-5.8	-5.0	-5.4	-3.8	-4.5	-4.3	-3.9	-3.6	-3.2
Net domestic borrowing	5.6	4.7	3.5	3.5	3.0	3.8	1.8	2.4	3.4	3.4	2.8	1.9
Public debt												
Public gross nominal debt	68.1	67.8	73.5	73.1	73.4	67.0	70.4	68.8	68.8	66.6	64.1	61.9
Public gross debt, PV	61.6	63.9	68.3	68.7	67.2	62.9	64.0	64.0	63.7	61.2	58.6	56.2
Gross domestic debt	33.5	33.2	32.5	32.7	30.6	32.1	29.6	31.8	31.4	31.3	30.1	29.0
Gross external debt	34.7	34.6	40.8	40.4	42.7	34.9	40.7	37.0	37.4	35.3	33.9	32.8
Investment and saving												
Investment	20.4	19.1	17.4	16.4	18.4	16.7	19.4	17.7	18.6	19.2	19.6	19.6
General government	4.5	3.8	4.1	3.4	5.0	3.5	5.5	3.9	4.5	4.9	5.0	5.0
Nongovernment	15.9	15.2	13.4	12.9	13.4	13.3	13.9	13.8	14.0	14.3	14.5	14.5
Saving	15.2	14.0	13.4	12.4	14.3	12.8	15.2	13.7	14.5	15.0	15.5	15.5
General government	-2.9	-2.4	-1.6	-2.4	0.0	-2.0	1.6	-1.0	0.2	1.1	1.8	2.3
Nongovernment	18.0	16.4	14.9	14.8	14.3	14.8	13.5	14.8	14.2	13.9	13.7	13.2
External sector												
Exports (goods and services)	10.8	12.1	12.3	11.7	14.9	10.9	15.1	11.7	12.8	13.3	13.5	13.8
Imports (goods and services)	19.9	21.3	20.0	20.4	22.9	19.0	22.8	19.8	21.2	21.7	21.9	22.1
Current account balance (including grants)	-5.2	-5.0	-4.0	-4.0	-4.1	-3.9	-4.2	-4.0	-4.1	-4.1	-4.1	-4.1
Gross international reserves												
In billions of US$	9.5	8.0	7.6	7.3	8.1	8.2	9.0	8.9	9.7	10.4	11.1	12.0
In months of next year imports	4.7	4.4	4.0	3.8	4.0	4.1	4.1	4.1	4.2	4.2	4.1	4.2
Memorandum items:												
GDP at current market prices (billions of Kenyan shilling)	12,028	13,490	15,206	15,109	17,085	16,585	18,936	18,300	20,165	22,211	24,430	26,916
GDP per capita (nominal US$)	2,209	2,260	2,107	2,096	1,879	2,322	1,996	2,290	2,242	2,301	2,419	2,550

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

[1] Fiscal year basis. Fiscal year runs from July 1 – June 30 (e.g., FY2023/24 runs from July 1, 2023 to June 30, 2024).

[2] Overall balance in FY2022/23 and FY2023/24 include adjustments to cash basis.

Table 2a. Kenya: Central Government Financial Operations, 2022/23–2028/29 [1,2,3]

(In billions of Kenyan shillings)

	2022/23	2023/24			2024/25				2025/26			2026/27	2027/28	2028/29
	Actual	6th Rev.	Est.	Suppl. Budget II	6th Rev.	Proj.	Budget	Suppl. Budget I	6th Rev.	Proj.	BROP	Proj.	Proj.	Proj.
Revenues and grants	**2,383.6**	**3,070.2**	**2,724.7**	**2,946.0**	**3,441.4**	**3,137.9**	**3,395.0**	**3,112.3**	**3,886.5**	**3,591.4**	**3,569.9**	**4,091.4**	**4,573.4**	**5,092.0**
Revenue	**2,360.5**	**3,022.8**	**2,702.7**	**2,907.5**	**3,392.1**	**3,095.3**	**3,343.2**	**3,060.0**	**3,833.3**	**3,542.2**	**3,516.6**	**4,028.1**	**4,503.8**	**5,015.4**
Tax revenue (including unidentified tax measures)	1,886.6	2,427.8	2,098.9	2,180.9	2,734.9	2,395.9	2,659.4	2,388.9	3,115.3	2,748.0	2,731.9	3,149.1	3,536.3	3,950.3
Income tax	941.6	1,198.6	1,042.8	1,093.6	1,312.3	1,175.0	1,230.2	1,180.3	1,472.9	1,294.5	1,320.7	1,425.5	1,569.1	1,727.4
Personal income	494.9	619.0	554.7	580.5	669.3	598.9	622.1	621.7	730.5	625.3	690.2	688.6	758.0	834.5
Corporate income	446.7	579.5	488.1	513.2	643.0	576.1	608.1	558.6	742.4	669.1	630.5	736.9	811.1	892.9
Import duty (net)	130.1	173.3	133.9	142.4	201.4	171.8	187.4	160.0	210.3	189.3	201.3	208.5	229.5	252.7
Excise duty	264.5	352.7	276.7	290.1	396.7	336.2	429.6	324.8	430.3	391.9	389.6	431.6	475.1	523.0
Value-added tax	550.4	703.3	645.5	654.8	764.6	712.9	812.2	723.8	852.4	823.6	820.3	907.0	998.3	1,099.1
Domestic	272.7	356.3	313.4	307.8	387.9	346.9	407.1	342.9	439.7	414.6	403.5	456.5	502.5	553.2
Imports	277.7	347.0	332.1	347.0	376.7	366.0	405.1	380.9	412.7	409.1	416.8	450.5	495.8	545.9
Nontax revenue	473.9	595.0	603.8	726.6	657.2	699.4	683.8	671.1	718.0	794.2	784.8	879.0	967.5	1,065.2
Investment income	41.3	38.7	47.8	80.4	34.7	72.3	65.0	72.3	38.1	79.7	81.2	87.8	96.6	106.4
Other	113.2	110.3	142.2	199.7	133.3	183.0	192.8	170.2	141.0	214.0	205.7	240.0	264.2	290.8
Ministerial and Departmental Fees (AIA, incl. Railw	319.4	446.0	413.7	446.5	489.2	444.1	426.0	428.6	538.9	500.5	497.8	551.2	606.7	667.9
Ministerial and Departmental Fees (AIA)	279.5	408.6	381.7	411.5	432.7	397.6	395.0	397.6	477.4	438.2	435.1	482.6	531.2	584.8
of which: Railway Levy	39.9	37.4	32.0	35.0	56.4	46.5	31.0	31.0	61.5	62.3	62.8	68.7	75.6	83.2
Grants	**23.1**	**47.4**	**22.0**	**38.5**	**49.3**	**42.6**	**51.8**	**52.3**	**53.2**	**49.1**	**53.2**	**63.2**	**69.6**	**76.6**
Project grants	16.1	47.4	22.0	38.4	49.3	42.6	51.8	52.3	53.2	49.1	53.2	63.2	69.6	76.6
Program grants	7.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**3,221.0**	**3,833.4**	**3,605.2**	**3,871.0**	**4,077.8**	**3,886.2**	**3,992.0**	**3,880.8**	**4,501.2**	**4,363.5**	**4,329.3**	**4,856.6**	**5,332.5**	**5,837.5**
Recurrent expenditure (including spendig offset:	**2,727.3**	**3,089.5**	**3,058.8**	**3,201.7**	**3,111.0**	**3,286.7**	**3,290.5**	**3,281.3**	**3,375.7**	**3,536.7**	**3,524.7**	**3,851.9**	**4,168.3**	**4,555.7**
Transfer to counties	399.6	423.9	354.6	423.9	444.8	415.4	408.9	415.4	472.9	432.3	410.1	476.0	524.0	576.8
Interest payments	687.3	868.1	840.7	853.7	941.2	988.5	1,009.9	1,009.9	957.0	1,068.1	1,081.2	1,210.8	1,315.2	1,394.8
Domestic interest	533.1	624.3	622.5	629.4	674.9	747.1	750.0	750.0	717.3	793.0	817.5	909.9	1,008.6	1,076.7
Foreign interest due	154.2	243.8	218.2	224.3	266.3	241.4	259.9	259.9	239.7	275.0	263.8	300.9	306.6	318.1
Wages and benefits (civil service)	539.6	584.6	575.3	583.4	645.3	626.5	613.6	602.7	703.4	659.0	650.9	725.8	798.8	879.5
Civil service reform	29.6	28.5	34.2	33.1	31.3	37.0	34.4	37.0	34.4	40.8	35.1	44.9	49.4	54.4
Pensions and Other Consolidated Fund Services	120.4	165.4	143.9	158.6	181.4	192.6	169.2	190.4	199.3	212.3	214.8	233.8	257.3	283.3
Defense and NSIS	172.2	190.8	205.4	205.6	170.0	212.3	212.5	212.3	170.0	200.9	212.3	221.2	243.5	268.1
Other	778.7	828.2	904.7	943.5	697.0	814.3	842.0	813.6	838.7	923.4	920.2	939.5	980.0	1,098.9
Development and net lending	**493.7**	**743.8**	**546.4**	**669.3**	**966.8**	**599.5**	**701.5**	**599.5**	**1,125.6**	**826.8**	**804.7**	**1,004.7**	**1,164.2**	**1,281.7**
Domestically financed	356.1	466.3	394.4	473.3	576.9	357.8	459.4	357.8	693.9	482.7	483.2	644.0	767.2	844.6
of which: SOEs emergency funding	22.8	19.6	0.0	0.0	20.8	0.0	0.0	0.0	20.1	0.0	0.0	0.0	0.0	0.0
Foreign financed	137.6	277.6	151.9	196.0	390.0	241.7	242.2	241.7	431.7	344.1	321.5	360.7	397.0	437.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments to cash basis	37.0	0.0	45.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including measures (cash basis, incl. grants)	**-800.4**	**-763.2**	**-835.1**	**-925.0**	**-636.4**	**-748.2**	**-597.0**	**-768.6**	**-614.8**	**-772.2**	**-759.4**	**-765.3**	**-759.2**	**-745.4**
Financing	**770.3**	**763.2**	**818.3**	**925.0**	**636.4**	**748.2**	**597.0**	**768.6**	**614.8**	**772.2**	**759.4**	**765.3**	**759.2**	**745.4**
Net foreign financing	267.9	277.1	222.7	259.3	319.9	332.4	333.8	355.5	233.3	113.0	213.7	35.7	115.7	249.9
Disbursements	505.3	913.1	760.5	815.8	688.4	641.7	664.5	686.2	763.5	611.1	713.9	521.7	701.3	817.0
Project loans	136.2	243.4	155.8	190.8	386.0	222.0	226.0	225.0	377.0	302.9	300.9	383.4	421.8	459.8
Program loans	266.9	593.6	317.8	338.1	260.2	331.2	269.8	292.4	180.5	168.8	191.8	45.8	101.4	112.3
of which: IMF (RCF+ EFF/ECF+RSF)	81.2	305.0	305.0		82.9	158.8			0.0	0.0		0.0	0.0	0.0
Non-concessional	102.2	76.1	286.9	286.9	42.1	88.5	168.8	168.8	206.0	139.4	221.2	92.5	178.1	244.9
Standard Gauge Railway	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-237.4	-636.0	-537.8	-556.5	-368.4	-309.3	-330.7	-330.7	-530.2	-498.1	-500.2	-485.9	-585.6	-567.1
Net domestic financing	502.4	486.1	595.6	665.7	316.5	415.8	263.2	413.1	381.4	659.2	545.8	729.5	643.5	495.6
Memorandum items:														
Nominal GDP	14,299.2	16,123.7	15,846.9	16,131.5	17,984.3	17,442.6	18,054.3	18,054.0	19,944.8	19,232.4	19,971.7	21,187.7	23,320.2	25,672.5
Primary balance incl. grants	-83.0	104.9	22.4	-71.3	304.8	240.3	412.9	241.3	342.3	295.9	321.8	445.5	556.1	649.4
Fuel subsidies (net of Petroleum Levy resources) [3]	42.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Primary expenditure	2,533.7	2,965.2	2,764.5	3,017.4	3,136.6	2,897.6	2,982.1	2,870.9	3,544.2	3,295.5	3,248.1	3,645.8	4,017.3	4,442.7
Expenditure carryover from FY2022/23		104.6	104.6											
Unidentified spending offsets due to SOE supports	0.0	19.6	0.0		20.8	0.0				0.0		0.0	0.0	0.0
RSF budget support	0.0	30.9	0.0		63.7	67.8								
Net domestic financing (before RSF)	502.4	517.0	595.6		380.1	483.7								
Total gross public debt, gross	10,278.7	12,590.6	10,225.4	12,060.3	13,119.6	11,989.8	11,657.4	11,329.7		13,288.9	0.0	14,390.2	15,361.1	16,322.0
external debt	5,446.6	7,272.4	4,816.3	0.0	7,484.9	6,164.8	0.0	5,506.3		6,804.8	0.0	7,176.5	7,504.0	7,969.3
domestic debt	4,832.1	5,318.2	5,409.1	0.0	5,634.7	5,825.0	0.0	5,823.4		6,484.1	0.0	7,213.7	7,857.1	8,352.7
Total net public debt	9,894.0	12,205.9	9,699.2	0.0	12,734.9	11,463.5	0.0	5,297.2		12,762.7	0.0	13,864.0	14,834.9	15,795.8
Pending bills	104.5													

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

[1] Fiscal year runs from July to June.

[2] The column "BROP" refers to the 2024 Budget Review and Outlook Paper (National Treasury and Economic Planning).

[3] The FY2022/23 figure is a staff estimate and includes Ksh. 24.9 billion in fuel subsidy arrears.

Table 2b. Kenya: Central Government Financial Operations, 2022/23–2028/29[1,2,3]

(In percent of GDP)

	2022/23	2023/24			2024/25				2025/26			2026/27	2027/28	2028/29
	Actual	6th Rev.	Est.	Suppl. Budget II	6th Rev.	Proj.	Budget	Suppl. Budget I	6th Rev.	Proj.	BROP	Proj.	Proj.	Proj.
Revenues and grants	**16.7**	**19.0**	**17.2**	**18.3**	**19.1**	**18.0**	**18.8**	**17.2**	**19.5**	**18.7**	**17.9**	**19.3**	**19.6**	**19.8**
Revenue	**16.5**	**18.7**	**17.1**	**18.0**	**18.9**	**17.7**	**18.5**	**16.9**	**19.2**	**18.4**	**17.6**	**19.0**	**19.3**	**19.5**
Tax revenue (including unidentified tax measures)	13.2	15.1	13.2	13.5	15.2	13.7	14.7	13.2	15.6	14.3	13.7	14.9	15.2	15.4
Income tax	6.6	7.4	6.6	6.8	7.3	6.7	6.8	6.5	7.4	6.7	6.6	6.7	6.7	6.7
Personal income	3.5	3.8	3.5	3.6	3.7	3.4	3.4	3.4	3.7	3.3	3.5	3.3	3.3	3.3
Corporate income	3.1	3.6	3.1	3.2	3.6	3.3	3.4	3.1	3.7	3.5	3.2	3.5	3.5	3.5
Import duty (net)	0.9	1.1	0.8	0.9	1.1	1.0	1.0	0.9	1.1	1.0	1.0	1.0	1.0	1.0
Excise duty	1.8	2.2	1.7	1.8	2.2	1.9	2.4	1.8	2.2	2.0	2.0	2.0	2.0	2.0
Value-added tax	3.8	4.4	4.1	4.1	4.3	4.1	4.5	4.0	4.3	4.3	4.1	4.3	4.3	4.3
Domestic	1.9	2.2	2.0	1.9	2.2	2.0	2.3	1.9	2.2	2.2	2.0	2.2	2.2	2.2
Imports	1.9	2.2	2.1	2.2	2.1	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Nontax revenue	3.3	3.7	3.8	4.5	3.7	4.0	3.8	3.7	3.6	4.1	3.9	4.1	4.1	4.1
Investment income	0.3	0.2	0.3	0.5	0.2	0.4	0.4	0.4	0.2	0.4	0.4	0.4	0.4	0.4
Other	0.8	0.7	0.9	1.2	0.7	1.0	1.1	0.9	0.7	1.1	1.0	1.1	1.1	1.1
Ministerial and Departmental Fees (AIA, incl. Railw	2.2	2.8	2.6	2.8	2.7	2.5	2.4	2.4	2.7	2.6	2.5	2.6	2.6	2.6
of which: Railway Levy	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Grants	**0.2**	**0.3**	**0.1**	**0.2**	**0.3**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Project grants	0.1	0.3	0.1	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Program grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**22.5**	**23.8**	**22.8**	**24.0**	**22.7**	**22.3**	**22.1**	**21.5**	**22.6**	**22.7**	**21.7**	**22.9**	**22.9**	**22.7**
Recurrent expenditure (including spendig offset	**19.1**	**19.2**	**19.3**	**19.8**	**17.3**	**18.8**	**18.2**	**18.2**	**16.9**	**18.4**	**17.6**	**18.2**	**17.9**	**17.7**
Transfer to counties	2.8	2.6	2.2	2.6	2.5	2.4	2.3	2.3	2.4	2.2	2.1	2.2	2.2	2.2
Interest payments	4.8	5.4	5.3	5.3	5.2	5.7	5.6	5.6	4.8	5.6	5.4	5.7	5.6	5.4
Domestic interest	3.7	3.9	3.9	3.9	3.8	4.3	4.2	4.2	3.6	4.1	4.1	4.3	4.3	4.2
Foreign interest due	1.1	1.5	1.4	1.4	1.5	1.4	1.4	1.4	1.2	1.4	1.3	1.4	1.3	1.2
Wages and benefits (civil service)	3.8	3.6	3.6	3.6	3.6	3.6	3.4	3.3	3.5	3.4	3.3	3.4	3.4	3.4
Civil service reform	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Pensions and Other Consolidated Fund Services	0.8	1.0	0.9	1.0	1.0	1.1	0.9	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Defense and NSIS	1.2	1.2	1.3	1.3	0.9	1.2	1.2	1.2	0.9	1.0	1.1	1.0	1.0	1.0
Other	5.4	5.1	5.7	5.8	3.9	4.7	4.7	4.5	4.2	4.8	4.6	4.4	4.2	4.3
of which: Emergency spending (droughts, securi	0.0	0.0	0.3	0.3										
Development and net lending	**3.5**	**4.6**	**3.4**	**4.1**	**5.4**	**3.4**	**3.9**	**3.3**	**5.6**	**4.3**	**4.0**	**4.7**	**5.0**	**5.0**
Domestically financed	2.5	2.9	2.5	2.9	3.2	2.1	2.5	2.0	3.5	2.5	2.4	3.0	3.3	3.3
of which: SOEs emergency funding	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Foreign financed	1.0	1.7	1.0	1.2	2.2	1.4	1.3	1.3	2.2	1.8	1.6	1.7	1.7	1.7
of which: SGR project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: COVID-19 vaccines	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments to cash basis	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including measures (cash basis, incl. grants)	**-5.6**	**-4.7**	**-5.3**	**-5.7**	**-3.5**	**-4.3**	**-3.3**	**-4.3**	**-3.1**	**-4.0**	**-3.8**	**-3.6**	**-3.3**	**-2.9**
Financing	**5.4**	**4.7**	**5.2**	**5.7**	**3.5**	**4.3**	**3.3**	**4.3**	**3.1**	**4.0**	**3.8**	**3.6**	**3.3**	**2.9**
Net foreign financing	1.9	1.7	1.4	1.6	1.8	1.9	1.8	2.0	1.2	0.6	1.1	0.2	0.5	1.0
Disbursements	3.5	5.7	4.8	5.1	3.8	3.7	3.7	3.8	3.8	3.2	3.6	2.5	3.0	3.2
Project loans	1.0	1.5	1.0	1.2	2.1	1.3	1.3	1.2	1.9	1.6	1.5	1.8	1.8	1.8
Program loans	1.9	3.7	2.0	2.1	1.4	1.9	1.5	1.6	0.9	0.9	1.0	0.2	0.4	0.4
of which: IMF (RCF+ EFF/ECF+RSF)	0.6	1.9	1.9	...	0.5	0.9	...	...	0.0	0.0	...	0.0	0.0	0.0
Non-concessional	0.7	0.5	1.8	1.8	0.2	0.5	0.9	0.9	1.0	0.7	1.1	0.4	0.8	1.0
Standard Gauge Railway	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-1.7	-3.9	-3.4	-3.4	-2.0	-1.8	-1.8	-1.8	-2.7	-2.6	-2.5	-2.3	-2.5	-2.2
Net domestic financing	3.5	3.0	3.8	4.1	1.8	2.4	1.5	2.3	1.9	3.4	2.7	3.4	2.8	1.9
Memorandum items:														
Primary balance incl. grants	-0.6	0.7	0.1	-0.4	1.7	1.4	2.3	1.3	1.7	1.5	1.6	2.1	2.4	2.5
Fuel subsidies (net of Petroleum Levy resources)[3]	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary expenditure	17.7	18.4	17.4	18.7	17.4	16.6	16.5	15.9	17.9	17.1	16.3	17.2	17.2	17.3
Expenditure carryover from FY2022/23	0.0	0.6	0.7											
Unidentified spending offsets due to SOE supports	0.0	0.1	0.0		0.1	0.0			0.1	0.0		0.0	0.0	0.0
RSF budget support	0.0	0.2	0.0		0.4	0.4								
Net domestic financing (before RSF)	3.5	3.2	3.8		2.1	2.8								
Total gross public debt, gross	71.9	78.1	64.5		73.0	68.7			69.9	69.1		67.9	65.9	63.6
external debt	38.1	45.1	30.4		41.6	35.3			39.8	35.4		33.9	32.2	31.0
domestic debt	33.8	33.0	34.1		31.3	33.4			30.2	33.7		34.0	33.7	32.5
Total net public debt	69.2	75.7	61.2		70.8	65.7			68.0	66.4		65.4	63.6	61.5
Pending bills	0.7					0.0	0.0	0.0	0.0					

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

[1] Fiscal year runs from July to June.

[2] The column "BROP" refers to the 2024 Budget Review and Outlook Paper (National Treasury and Economic Planning).

[3] The FY2022/23 figure is a staff estimate and includes Ksh. 24.9 billion in fuel subsidy arrears.

Table 3. Kenya: Monetary Survey, 2021–29

	Dec-21	Dec-22	Dec-23	Jun-24	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29
	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In billions of Kenyan Shillings; end of period)									
Central Bank of Kenya (CBK)										
Net foreign assets	701	537	487	479	364	340	520	706	942	1,228
Net domestic assets	-179	-23	109	101	242	369	213	101	-55	-250
Net domestic credit	147	337	734	605	793	979	873	786	660	473
Government (net)	67	207	488	341	414	484	380	239	49	-189
Of which: on-lending and transfer of IMF resources[1]	195	350	517	492	565	635	531	390	200	-38
Commercial banks (net)	76	127	243	261	376	492	490	543	607	659
Private sector (net)	3	4	4	4	4	4	4	4	4	4
Other items (net)	-326	-360	-625	-505	-552	-610	-660	-685	-715	-724
Reserve money (RM)	522	514	595	580	606	709	732	807	887	978
Currency in circulation	253	259	282	274	269	345	332	366	402	443
Bank reserves	268	255	313	306	337	363	400	441	485	535
Other depository corporations										
Net foreign assets	-110	-254	307	427	463	-61	-66	-68	-70	-72
Reserves	268	255	313	306	337	363	400	441	485	535
Credit to CBK	-76	-127	-243	-261	-376	-492	-490	-543	-607	-659
Net domestic assets	3,850	4,401	4,839	4,596	5,113	6,250	6,882	7,579	8,341	9,175
Net domestic credit	4,806	5,225	5,761	5,786	6,125	6,701	7,313	8,096	8,737	9,835
Government (net)	1,656	1,713	1,752	1,907	2,005	2,079	2,185	2,427	2,498	2,902
Other public sector (net)	100	82	101	85	85	85	85	85	85	85
Private sector (net)	3,050	3,430	3,907	3,794	4,035	4,537	5,043	5,585	6,154	6,849
Other items (net)	-956	-824	-922	-1,190	-1,012	-451	-431	-517	-396	-661
Total deposits	3,931	4,221	5,154	4,994	5,238	5,652	6,228	6,860	7,545	8,313
Monetary survey										
Net foreign assets	590	283	794	906	827	279	454	638	872	1,156
Net domestic assets	3,645	4,251	4,705	4,436	4,979	6,127	6,605	7,137	7,679	8,266
Net domestic credit	4,877	5,435	6,252	6,130	6,543	7,188	7,697	8,339	8,790	9,650
Government (net)	1,724	1,920	2,240	2,248	2,419	2,563	2,565	2,666	2,547	2,713
Other public sector (net)	100	82	101	85	85	85	85	85	85	85
Private sector (net)	3,053	3,434	3,911	3,798	4,039	4,541	5,047	5,589	6,158	6,852
Other items (net)	-1,232	-1,184	-1,547	-1,695	-1,704	-1,715	-1,720	-1,722	-1,726	-1,731
M1	1,848	1,967	2,044	2,024	2,200	2,427	2,674	2,946	3,240	3,570
Money and quasi-money (M2)	3,432	3,613	3,952	4,002	4,274	4,666	5,141	5,663	6,229	6,863
M2 plus resident foreign currency deposits (M3)	4,235	4,534	5,499	5,341	5,806	6,406	7,058	7,775	8,551	9,422
M3 plus nonbank holdings of government debt (L)	6,202	6,893	8,198	8,274	8,870	9,825	10,956	12,143	12,875	13,854
Memorandum items	(Annual percentage change, unless otherwise indicated)									
RM	11.0	-1.4	15.8	18.7	1.7	17.0	3.3	10.1	10.0	10.2
M2	5.6	5.3	9.4	3.9	8.2	9.2	10.2	10.1	10.0	10.2
M3	6.1	7.1	21.3	6.0	5.6	10.3	10.2	10.1	10.0	10.2
L	9.5	11.1	18.9	9.4	8.2	10.8	11.5	10.8	6.0	7.6
Deposits	6.5	7.4	22.1	5.8	1.6	7.9	10.2	10.1	10.0	10.2
Net domestic credit	14.9	11.4	15.0	5.3	4.7	9.9	7.1	8.4	5.4	9.8
Government (net, monetary survey)	28.3	11.4	16.7	7.9	8.0	5.9	0.1	3.9	-4.4	6.5
Private sector (net)	8.6	12.5	13.9	4.0	3.3	12.4	11.2	10.7	10.2	11.3
Net domestic assets (NDA) of the banking sector	9.8	14.3	10.0	-1.6	5.7	22.2	10.1	10.1	10.0	10.0
NDA growth (as percent of the base period M3)	8.6	13.0	9.7	-1.5	5.0	19.6	9.9	9.9	9.8	9.8
Multiplier (M2/RM; ratio)	6.6	7.0	6.6	6.9	7.1	6.6	7.0	7.0	7.0	7.0
Multiplier (M3/RM; ratio)	8.1	8.8	9.2	9.2	9.6	9.0	9.6	9.6	9.6	9.6
Velocity (GDP/M2; ratio)	3.5	3.7	3.8	4.0	3.9	3.9	3.9	3.9	3.9	3.9
Velocity (GDP/M3; ratio)	2.8	3.0	2.7	3.0	2.9	2.9	2.9	2.9	2.9	2.9

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

[1] Includes resources under the RCF (approved on May 6, 2020), the current EFF/ECF arrangements, and local currency lending using the August 2021 SDR allocation, and budget support resources from the RSF.

Table 4a. Kenya: Summary Balance of Payments, 2021–29
(In millions of U.S. dollars, unless otherwise indicated)

	2021	2022	2023		2024		2025		2026		2027		2028	
	Act.	Act.	6th Rev	Act.	6th Rev	Proj.	6th Rev	Proj.	6th Rev	Proj.	6th Rev	Proj.	6th Rev	Proj.
Current account	-5,744	-5,766	-4,388	-4,317	-3,992	-4,740	-4,462	-4,844	-4,829	-5,020	-5,209	-5,251	-5,443	-5,588
Merchandise trade	-11,065	-11,704	-9,318	-10,022	-9,105	-10,155	-9,710	-10,237	-10,405	-10,567	-11,310	-11,201	-12,140	-12,105
Exports f.o.b.	6,789	7,419	7,286	7,220	8,005	7,950	8,657	8,578	9,295	9,290	9,997	10,015	10,747	10,879
Imports f.o.b.	17,854	19,123	16,604	17,242	17,110	18,105	18,367	18,816	19,700	19,857	21,307	21,216	22,886	22,984
Energy	3,280	5,053	4,372	4,291	4,415	4,394	4,551	4,286	4,780	4,505	4,854	4,609	5,133	4,920
Non-energy	14,574	14,070	12,232	12,952	12,696	13,711	13,816	14,530	14,920	15,352	16,453	16,608	17,754	18,064
Services	1,037	1,157	992	602	1,239	241	1,479	312	1,544	372	1,752	467	2,037	610
Credit, *of which*	5,036	6,440	6,096	5,405	6,642	5,292	7,371	5,694	8,117	6,302	8,888	6,855	9,723	7,420
Transportation	1,646	2,296	1,688	1,933	1,787	1,765	2,011	1,925	2,168	2,082	2,294	2,202	2,473	2,256
Travel receipts	844	1,110	1,161	1,005	1,245	888	1,315	979	1,423	1,146	1,539	1,237	1,663	1,406
Debit, *of which*	3,999	5,283	5,104	4,803	5,403	5,051	5,891	5,382	6,573	5,930	7,136	6,388	7,686	6,810
Transportation	1,568	2,137	1,664	1,763	1,657	1,601	1,620	1,659	1,832	1,846	1,938	1,930	1,941	1,949
Primary income	-1,835	-1,741	-2,723	-1,887	-3,005	-2,303	-3,558	-2,910	-3,677	-3,040	-3,850	-3,170	-4,166	-3,324
Credit	62	39	118	206	232	319	347	468	355	507	386	579	405	592
Debit	1,896	1,780	2,842	2,093	3,238	2,621	3,905	3,378	4,032	3,547	4,237	3,749	4,571	3,917
Secondary income, *of which*	6,119	6,522	6,662	6,990	6,880	7,476	7,327	7,991	7,710	8,215	8,199	8,653	8,826	9,231
Remittances	3,770	4,060	4,231	4,228	4,425	4,890	4,730	5,273	5,057	5,659	5,406	5,956	5,837	6,532
Capital account	196	140	200	123	200	200	200	200	200	200	200	200	200	200
Financial account[1]	-3,896	-3,281	-2,147	-1,676	-606	-2,787	-4,063	-3,409	-4,755	-4,843	-6,122	-6,116	-6,826	-6,701
Direct investment, net	-53	-344	-275	-228	-726	-728	-1,033	-973	-1,438	-1,268	-1,644	-1,426	-1,917	-1,679
Assets	410	49	100	500	100	100	100	100	100	100	100	100	50	50
Liabilities	-463	-394	-375	-729	-826	-828	-1,134	-1,073	-1,538	-1,368	-1,744	-1,526	-1,967	-1,729
Portfolio investment, net, *of which*	204	708	223	630	2,255	-72	-32	-197	-154	-430	75	92	0	-87
Assets	1,041	478	369	492	386	340	386	230	552	234	386	209	-85	209
Liabilities	-837	230	-146	138	1,869	-412	-418	-427	-706	-664	-311	-118	85	-296
Eurobonds (net)	-1,000	0	0	0	2,000	500	-300	-300	-600	-550	-200	0	375	0
Issuance	-1,000	0	0	0	0	-1,500	-600	-600	-900	-850	-500	-300	-625	-1,000
Amortization	0	0	0	0	2,000	2,000	300	300	300	300	300	300	1,000	1,000
Financial derivatives, net	23	-21	0	86	0	0	0	0	0	0	0	0	0	0
Other investment, net	-4,069	-3,623	-2,096	-2,164	-2,135	-1,986	-2,998	-2,239	-3,163	-3,145	-4,554	-4,782	-4,909	-4,935
Assets	105	-523	-120	2,935	250	3,526	500	450	500	450	500	450	500	450
Liabilities, *of which*	-4,174	-3,099	-1,976	-5,099	-2,385	-5,512	-3,498	-2,689	-3,663	-3,595	-5,054	-5,232	-5,409	-5,385
Public sector loans (excl. official budget support) (net)	257	250	-180	-226	-129	-122	212	710	-504	36	-765	-1,185	-2,270	-1,883
Issuance[2]	-1,198	-1,555	-2,161	-2,196	-2,049	-1,911	-2,126	-1,682	-2,283	-2,230	-2,653	-3,078	-3,733	-3,587
Amortization	1,455	1,804	1,981	1,970	1,920	1,789	2,338	2,392	1,779	2,266	1,888	1,893	1,463	1,704
SDR allocation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	418	-490	0	479	0	0	0	0	0	0	0	0	0	0
Overall balance ("+" indicates a surplus)	-1,234	-2,835	-2,040	-2,039	-3,186	-1,753	-198	-1,235	127	23	1,114	1,066	1,584	1,314
Financing	1,159	3,023	2,040	2,039	3,186	1,753	198	1,235	-127	-23	-1,114	-1,066	-1,584	-1,314
Reserve assets (without RSF)[2]	-1,159	1,494	461	568	-92	-712	-855	-261	-853	-799	-742	-694	-982	-785
Program financing	1,814	1,533	1,579	1,471	3,278	2,465	1,053	1,495	726	776	-371	-372	-602	-529
IMF EFF/ECF (net)	847	619	380	380	1,728	1,114	53	385	-274	-274	-371	-372	-602	-529
of which , IMF EFF/ECF purchases and disbursements	980	673	409	409	1,728	1,114	163	496	0	0	0	0	0	0
BoP support	…	…	108	108	325	328	109	109	0	0	0	0	0	0
Budget support	980	673	300	300	1,403	786	55	387	0	0	0	0	0	0
Official budget support (other)	968	913	1,199	1,092	1,550	1,352	1,000	1,110	1,000	1,050	0	0	0	0
of which , Unidentified financing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing	504	-4	0	0	0	0	0	0	0	0	0	0	0	0
of which , DSSI	504	0	0	0	0	0	0	0	0	0	0	0	0	0
Residual Gap			0	0	0	0	0	0	0	0	0	0		
IMF RSF (net)	…	…	0	0	421	181	121	364	0	0	0	0	0	0
of which , IMF RSF disbursements	…	…	0	0	421	181	121	364	0	0	0	0	0	0
Reserve assets (with RSF)[2]	…	…	461	568	-513	-893	-975	-624	-853	-799	-742	-694	-982	-785
Memorandum items:														
Gross international reserves (USD million)	9,514	8,047	7,554	7,341	8,067	8,234	9,042	8,858	9,895	9,657	10,638	10,351	11,619	11,136
In months of next year's imports of goods and services	4.7	4.4	4.0	3.8	4.0	4.1	4.1	4.1	4.2	4.2	4.2	4.2	4.2	4.1
Gross international reserves excl. RSF (USD million)	…	8,047	7,554	7,341	7,646	7,811	8,501	8,314	9,354	9,113	10,096	9,806	11,078	10,591
In months of next year's imports of goods and services	…	4.4	4.0	3.8	3.8	3.9	3.9	3.9	3.9	4.0	4.0	3.9	4.2	4.1
Current account (CA) (percent of GDP)	-5.2	-5.0	-4.0	-4.0	-4.1	-3.9	-4.2	-4.0	-4.2	-4.1	-4.2	-4.1	-4.1	-4.1
Merchandize exports growth (percent)	12.2	9.3	-1.8	-2.7	9.9	10.1	8.2	7.9	7.4	8.3	7.6	7.8	7.5	8.6
Total export growth	21.8	17.2	-3.3	-8.9	9.5	4.9	9.4	7.8	8.6	9.2	8.5	8.2	8.4	8.5
Merchandize imports growth (percent)	24.1	7.1	-13.2	-9.8	3.0	5.0	7.3	3.9	7.3	5.5	8.2	6.8	7.4	8.3
Energy (percent)	59.4	54.1	-13.5	-15.1	1.0	2.4	3.1	-2.5	5.0	5.1	1.6	2.3	5.7	6.8
Non-energy (percent)	18.2	-3.5	-13.1	-8.0	3.8	5.9	8.8	6.0	8.0	5.7	10.3	8.2	7.9	8.8
Travel receipts growth (percent)	55.9	31.5	5.4	-9.4	7.3	-11.7	5.6	10.3	8.2	17.0	8.2	8.0	8.0	13.7
Remittances growth (percent)	21.3	7.7	4.0	4.1	4.6	15.7	6.9	7.8	6.9	7.3	6.9	5.3	8.0	9.7

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

[1] Negative entries reflect a decrease in assets or an increase in liabilities.

[2] Negative entries reflect an increase in assets.

Table 4b. Kenya: Summary Balance of Payments, 2021–29

(In percent of GDP)

	2021	2022	2023		2024		2025		2026		2027		2028		2029
	Act.	Act.	6th Rev	Act.	6th Rev	Proj.	6th Rev	Proj.	6th Rev	Proj.	6th Rev	Proj.	6th Rev	Proj.	Proj.
Current account	-5.2	-5.0	-4.0	-4.0	-4.1	-3.9	-4.2	-4.0	-4.2	-4.1	-4.2	-4.1	-4.1	-4.1	-4.1
Merchandise trade	-10.1	-10.2	-8.6	-9.3	-9.3	-8.3	-9.1	-8.4	-9.1	-8.7	-9.2	-8.8	-9.2	-8.9	-8.8
Exports f.o.b.	6.2	6.5	6.7	6.7	8.1	6.5	8.1	7.0	8.1	7.6	8.1	7.9	8.2	8.0	8.1
Imports f.o.b.	16.3	16.7	15.3	16.0	17.4	14.9	17.3	15.4	17.2	16.3	17.3	16.7	17.4	16.9	17.0
Energy	3.0	4.4	4.0	4.0	4.5	3.6	4.3	3.5	4.2	3.7	4.0	3.6	3.9	3.6	3.6
Non-energy	13.3	12.3	11.3	12.0	12.9	11.3	13.0	11.9	13.0	12.6	13.4	13.1	13.5	13.3	13.3
Services	0.9	1.0	0.9	0.6	1.3	0.2	1.4	0.3	1.3	0.3	1.4	0.4	1.5	0.4	0.4
Credit, *of which*	4.6	5.6	5.6	5.0	6.7	4.3	6.9	4.7	7.1	5.2	7.2	5.4	7.4	5.5	5.6
Transportation	1.5	2.0	1.6	1.8	1.8	1.4	1.9	1.6	1.9	1.7	1.9	1.7	1.9	1.7	1.7
Travel receipts	0.8	1.0	1.1	0.9	1.3	0.7	1.2	0.8	1.2	0.9	1.3	1.0	1.3	1.0	1.1
Debit	3.6	4.6	4.7	4.4	5.5	4.1	5.5	4.4	5.7	4.9	5.8	5.0	5.8	5.0	5.2
Primary income	-1.7	-1.5	-2.5	-1.7	-3.1	-1.9	-3.3	-2.4	-3.2	-2.5	-3.1	-2.5	-3.2	-2.4	-2.4
Credit	0.1	0.0	0.1	0.2	0.2	0.3	0.3	0.4	0.3	0.4	0.3	0.5	0.3	0.4	0.4
Debit	1.7	1.6	2.6	1.9	3.3	2.2	3.7	2.8	3.5	2.9	3.4	3.0	3.5	2.9	2.9
Secondary income, *of which*	5.6	5.7	6.1	6.5	7.0	6.1	6.9	6.5	6.7	6.8	6.7	6.8	6.7	6.8	6.7
Remittances	3.4	3.5	3.9	3.9	4.5	4.0	4.4	4.3	4.4	4.7	4.4	4.7	4.4	4.8	4.8
Capital account	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Financial account[1]	-3.6	-2.9	-2.0	-1.6	-0.6	-2.3	-3.8	-2.8	-4.1	-4.0	-5.0	-4.8	-5.2	-4.9	-5.1
Direct investment, net	0.0	-0.3	-0.3	-0.2	-0.7	-0.6	-1.0	-0.8	-1.3	-1.0	-1.3	-1.1	-1.5	-1.2	-1.3
Assets	0.4	0.0	0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Liabilities	-0.4	-0.3	-0.3	-0.7	-0.8	-0.7	-1.1	-0.9	-1.3	-1.1	-1.4	-1.2	-1.5	-1.3	-1.3
Portfolio investment, net, *of which*	0.2	0.6	0.2	0.6	2.3	-0.1	0.0	-0.2	-0.1	-0.4	0.1	0.1	0.0	-0.1	-0.4
Assets	0.9	0.4	0.3	0.5	0.4	0.3	0.4	0.2	0.5	0.2	0.3	0.2	-0.1	0.2	0.1
Liabilities	-0.8	0.2	-0.1	0.1	1.9	-0.3	-0.4	-0.3	-0.6	-0.5	-0.3	-0.1	0.1	-0.2	-0.5
Eurobonds (net)	-0.9	0.0	0.0	0.0	2.0	0.4	-0.3	-0.2	-0.5	-0.5	-0.2	0.0	0.3	0.0	-0.3
Financial derivatives, net	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-3.7	-3.2	-1.9	-2.0	-2.2	-1.6	-2.8	-1.8	-2.8	-2.6	-3.7	-3.8	-3.7	-3.6	-3.4
Assets	0.1	-0.5	-0.1	2.7	0.3	2.9	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Liabilities, *of which*	-3.8	-2.7	-1.8	-4.7	-2.4	-4.5	-3.3	-2.2	-3.2	-3.0	-4.1	-4.1	-4.1	-4.0	-3.7
Public sector loans (excl. official budget support) (net)	0.2	0.2	-0.2	-0.2	-0.1	-0.1	0.2	0.6	-0.4	0.0	-0.6	-0.9	-1.7	-1.4	-1.1
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.4	-0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance ("+" indicates a surplus)	-1.1	-2.5	-1.9	-1.9	-3.2	-1.4	-0.2	-1.0	0.1	0.0	0.9	0.8	1.2	1.0	1.1
Financing	1.1	2.6	1.9	1.9	3.2	1.4	0.2	1.0	-0.1	0.0	-0.9	-0.8	-1.2	-1.0	-1.1
Reserve assets (without RSF)[2]	-1.1	1.3	0.4	0.5	-0.1	-0.6	-0.8	-0.2	-0.7	-0.7	-0.6	-0.5	-0.7	-0.6	-0.6
Program financing	1.7	1.3	1.5	1.4	3.3	2.0	1.0	1.2	0.6	0.6	-0.3	-0.3	-0.5	-0.4	-0.5
Exceptional financing	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
of which , DSSI	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Residual Gap			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
IMF RSF (net)	…	…	0.0	0.0	0.4	0.1	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0
of which , IMF RSF disbursements	…	…	0.0	0.0	0.4	0.1	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0
Reserve assets (with RSF)[2]			0.4	0.5	-0.5	-0.7	-0.9	-0.5	-0.7	-0.7	-0.6	-0.5	-0.7	-0.6	-0.6
Memorandum items:															
Gross international reserves	8.7	7.0	7.0	6.8	8.2	6.8	8.5	7.2	8.6	7.9	8.7	8.7	8.8	8.2	8.2

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

[1] Negative entries reflect a decrease in assets or an increase in liabilities.

[2] Negative entries reflect an increase in assets.

Table 5. Kenya. Financial Soundness Indicators of the Banking Sector, 2020–June 2024

(In percent)

	Mar-20	Dec-20	Dec-21	Dec-22	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Capital adequacy									
Regulatory capital to risk-weighted assets	18.5	19.2	19.6	19.0	18.6	18.6	18.3	18.6	19.1
Regulatory tier 1 capital to risk-weighted assets	16.4	16.7	16.7	16.1	15.4	15.3	15.1	16.0	16.6
Tier 1 capital to total assets	12.3	12.3	12.1	11.4	11.1	10.6	10.4	11.2	11.6
Asset quality									
Non-performing loans to total gross loans[1]	10.2	11.9	10.9	10.8	11.9	12.3	12.3	12.9	13.3
Bank provisions to NPLs	44.8	51.9	54.1	56.4	49.0	49.4	49.1	50.0	50.0
Non-performing loans net of provisions to capital	22.2	21.6	18.4	18.4	24.1	25.5	25.7	25.5	25.3
Earning and profitability									
Return on assets (ROA)	3.0	2.1	3.3	3.7	3.2	3.1	2.9	3.6	3.4
Return on equity (ROE)	20.4	14.5	22.9	27.0	26.6	26.3	24.9	30.3	28.2
Non-interest expenses to gross income	50.1	50.1	46.8	45.2	46.9	47.1	47.5	45.0	46.9
Liquidity									
Liquid assets to total assets	38.3	40.8	41.9	37.5	37.6	38.3	39.0	38.6	39.8
Liquid assets to total deposits	59.6	64.2	67.7	62.6	61.7	61.8	62.2	64.0	65.2
Total loans to total deposits	85.4	83.5	83.7	88.2	87.7	84.5	82.2	85.4	82.9
Sensitivity to market risk									
FX currency denominated liabilities to total liabilities	26.2	28.0	29.0	30.5	32.5	33.8	34.8	31.6	30.8
Spread between lending and deposit rate	5.1	5.7	5.7	5.5	5.5	5.4	4.8	5.4	5.5

Source: Kenyan authorities.

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

Table 6. Kenya: External Financing Requirements and Sources, 2021–29

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

	2021	2022	2023	2024		2025		2026		2027		2028	2029
	Act.	Act.	Act.	6th Rev.	Proj.	6th Rev.	Proj.	6th Rev.	Proj.	6th Rev.	Proj.	Proj.	Proj.
Gross financing requirements	**7,432**	**7,666**	**6,361**	**8,046**	**8,664**	**7,345**	**7,782**	**7,317**	**7,995**	**7,903**	**7,951**	**8,955**	**9,055**
Current account deficit (excl. grants)	5,844	5,808	4,362	4,126	4,875	4,597	4,979	4,964	5,155	5,344	5,386	5,723	6,144
Amortization of public sector loans (excl. IMF total repurchases and repayments)	1,455	1,804	1,970	1,920	1,789	2,338	2,392	1,779	2,266	1,888	1,893	1,704	2,233
Amortization of sovereign bonds	0	0	0	2,000	2,000	300	300	300	300	300	300	1,000	0
IMF total repurchases and repayments	133	54	29	0	0	110	111	274	274	371	372	529	678
Change in reserves excluding IMF RSF (+ = increase)	**1,159**	**-1,494**	**-568**	**92**	**712**	**855**	**261**	**853**	**799**	**742**	**694**	**785**	**862**
Gross financing sources	**4,932**	**5,517**	**3,814**	**4,861**	**6,911**	**7,037**	**6,436**	**7,170**	**7,743**	**8,645**	**8,645**	**9,740**	**9,917**
FDI, net	53	344	228	726	728	1,033	973	1,438	1,268	1,644	1,426	1,679	1,901
Public grants	100	42	46	135	135	135	135	135	135	135	135	135	135
Public sector borrowing (excl. program financing)	1,160	1,555	2,196	2,049	1,911	2,126	1,682	2,283	2,230	2,653	3,078	3,587	3,889
of which, Syndicated and commercial loans	0	0	541	0	506	0	0	141	17	3	215	545	665
Issuance of sovereign bonds	1,000	0	0	0	1,500	600	600	900	850	500	300	1,000	500
Private capital flows, net	2,619	3,576	1,345	1,952	2,637	3,142	3,047	2,414	3,260	3,714	3,706	3,339	3,493
Errors and omissions	**493**	**-684**	**479**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total financing needs	**3,167**	**1,339**	**1,500**	**3,278**	**2,465**	**1,163**	**1,606**	**1,000**	**1,050**	**0**	**0**	**0**	**0**
Total financing sources	**2,452**	**1,582**	**1,500**	**3,278**	**2,465**	**1,163**	**1,606**	**1,000**	**1,050**	**0**	**0**	**0**	**0**
Program financing	1,947	1,586	1,500	3,278	2,465	1,163	1,606	1,000	1,050	0	0	0	0
IMF EFF/ECF purchases and disbursements	980	673	409	1,728	1,114	163	496	0	0	0	0	0	0
BoP support	…	…	108	325	328	109	109	0	0	0	0	0	0
Budget support	980	673	300	1,403	786	55	387	0	0	0	0	0	0
Official budget support (other)	968	913	1,092	1,550	1,352	1,000	1,110	1,000	1,050	0	0	0	0
Exceptional financing	504	-4	0	0	0	0	0	0	0	0	0	0	0
of which, DSSI	504	0	0	0	0	0	0	0	0	0	0	0	0
IMF RSF disbursements	…	…	0	421	181	121	364	0	0	0	0	0	0
Total change in reserves including IMF RSF (+ = increase)	**…**	**-1,494**	**-568**	**513**	**893**	**975**	**624**	**853**	**799**	**742**	**694**	**785**	**862**
Memorandum Items													
Gross financing requirements (in percent of GDP)	6.8	6.7	5.9	8.2	7.1	6.9	6.4	6.4	6.6	6.4	6.3	6.6	6.2
Gross international Reserves	9,514	8,047	7,341	8,067	8,234	9,042	8,858	9,895	9,657	10,638	10,351	11,136	11,998
In months of next year's imports of GNFS	4.7	4.4	3.8	4.0	4.1	4.1	4.1	4.2	4.2	4.2	4.2	4.1	4.2

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

Table 7a. Kenya: Scheduled and Proposed Access and Phasing Under the Extended Fund Facility and the Extended Credit Facility

Approved at the Sixth EFF/ECF reviews

Availability Date	Condition	Available Purchases under GRA		Available Loans under PRGT		Total Available Purchases and Loans	
		SDR millions	Percent of quota	SDR millions	Percent of quota	SDR millions	Percent of quota
April 2, 2021	Approval of the 38-month EFF and ECF arrangements	141.13	26.00	75.99	14.00	217.12	40.00
June 20, 2021	Completion of the first EFF-ECF reviews and observance of continuous and end-March 2021 performance criteria 1/	198.12	36.50	86.85	16.00	284.97	52.50
November 7, 2021	Completion of the second EFF-ECF reviews and observance of continuous and end-June 2021 performance criteria 1/	135.70	25.00	48.85	9.00	184.55	34.00
May 7, 2022	Completion of the third EFF-ECF reviews and observance of continuous and end-December 2021 performance criteria 1/	141.13	26.00	38.00	7.00	179.13	33.00
November 7, 2022	Completion of the fourth EFF-ECF reviews and observance of continuous and end-June 2022 performance criteria 1/	135.70	25.00	200.84	37.00	336.54	62.00
May 7, 2023	Completion of the fifth EFF-ECF reviews and RSF approval and observance of continuous and end-December 2022 performance criteria 1/	229.06	42.20	77.62	14.30	306.68	56.50
November 7, 2023	Completion of the sixth EFF-ECF and first RSF reviews and observance of continuous and end June 2023 performance criteria 1/	360.41	66.40	108.83	20.05	469.25	86.45
May 7, 2024	Completion of the seventh EFF-ECF and second RSF reviews and observance of continuous and end December 2023 performance criteria	647.02	119.20	62.69	11.55	709.72	130.75
October 30, 2024	Completion of the eight EFF-ECF and third RSF reviews and observance of continuous and end December 2023 performance criteria	78.71	14.500	43.69	8.05	122.39	22.55
March 15, 2025	Completion of the ninth EFF-ECF and forth RSF reviews and observance of continuous and end December 2023 performance criteria	78.71	14.500	43.68	8.05	122.38	22.55
Total		**2,145.69**	**395.30**	**787.04**	**145.00**	**2,932.73**	**540.30**

Proposed

Availability Date	Condition	Available Purchases under GRA		Available Loans under PRGT		Total Available Purchases and Loans	
		SDR millions	Percent of quota	SDR millions	Percent of quota	SDR millions	Percent of quota
April 2, 2021	Approval of the 38-month EFF and ECF arrangements	141.13	26.00	75.99	14.00	217.12	40.00
June 20, 2021	Completion of the first EFF-ECF reviews and observance of continuous and end-March 2021 performance criteria 1/	198.12	36.50	86.85	16.00	284.97	52.50
November 7, 2021	Completion of the second EFF-ECF reviews and observance of continuous and end-June 2021 performance criteria 1/	135.70	25.00	48.85	9.00	184.55	34.00
May 7, 2022	Completion of the third EFF-ECF reviews and observance of continuous and end-December 2021 performance criteria 1/	141.13	26.00	38.00	7.00	179.13	33.00
November 7, 2022	Completion of the fourth EFF-ECF reviews and observance of continuous and end-June 2022 performance criteria 1/	135.70	25.00	200.84	37.00	336.54	62.00
May 7, 2023	Completion of the fifth EFF-ECF reviews and RSF approval and observance of continuous and end-December 2022 performance criteria 1/	229.06	42.20	77.62	14.30	306.68	56.50
November 7, 2023	Completion of the sixth EFF-ECF and first RSF reviews and observance of continuous and end- June 2023 performance criteria 1/	360.41	66.40	108.83	20.05	469.24	86.45
May 7, 2024	Completion of the seventh EFF-ECF and second RSF reviews and observance of continuous and end-December 2023 performance criteria	88.95	16.39	93.69	17.26	182.64	33.65
October 30, 2024	Completion of the eight EFF-ECF and third RSF reviews and observance of continuous and end-June 2024 performance criteria	88.95	16.39	93.69	17.26	182.64	33.65
March 15, 2025	Completion of the ninth EFF-ECF and forth RSF reviews and observance of continuous and end-December 2024 performance criteria	290.15	53.45	80.34	14.80	370.49	68.25
Total		**1,809.30**	**333.33**	**904.70**	**166.67**	**2,714.00**	**500.00**

Source: IMF staff estimates.

1/ The first, second, third, fourth, fifth, and sixth EFF/ECF reviews took place on June 23, 2021, December 17, 2021, July 18, 2022, December 19, 2022, July 17, 2023, and January 17, 2024 respectively.

Table 7b. Kenya: Schedule of Reviews and Disbursements Under the RSF Arrangement

Availability date[1]	Condition	Available Loans under RST	
		SDR millions	Percent of quota
July 17, 2023	Board approval of the arrangement	0.00	0.00
November 7, 2023	Reform measure 1 implementation review	45.2333	8.33
May 7, 2024	Reform measure 2 implementation review	45.2333	8.33
May 7, 2024	Reform measure 3 implementation review [2]	45.2333	8.33
May 7, 2024	Reform measure 4 implementation review	45.2333	8.33
October 30, 2024	Reform measure 5 implementation review	45.2333	8.33
October 30, 2024	Reform measure 6 implementation review	45.2333	8.33
October 30, 2024	Reform measure 7 implementation review	45.2334	8.33
March 15, 2025	Reform measure 8 implementation review	45.2334	8.33
March 15, 2025	Reform measure 9 implementation review	45.2334	8.33
Total		**407.1000**	**75.00**

Source: IMF staff estimates.

Note: Kenya's quota is SDR542.8 million.

[1] Reflects earliest available date for disbursement subject to assessment by the IMF Board of implementation of a reform measure and completion of RSF review.

[2] Reform measures 3, 5, 6, and 7 would take longer than originally envisaged.

Table 8. Kenya: Indicators of Fund Credit, 2023–45[1]

(In millions of SDR, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
		Projections																					
Fund Obligations Based on Existing Credit (millions of SDRs) [4]																							
Principal	21.6	0.0	82.6	204.0	276.2	392.2	502.4	528.7	437.9	361.0	267.1	174.7	59.4	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	38.5	13.6
Charges and interest [3]	51.8	90.9	123.9	130.9	124.7	117.2	102.4	81.7	67.0	55.2	45.7	38.9	35.2	33.3	31.5	29.8	28.0	26.3	24.5	22.8	21.0	19.3	17.9
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)																							
Principal	21.6	0.0	82.6	204.0	276.2	392.2	502.4	528.7	437.9	361.0	267.1	174.7	59.4	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	38.5	13.6
GRA	0.0	0.0	28.3	79.2	125.3	193.5	277.4	301.6	273.3	222.4	176.3	108.0	24.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	21.6	0.0	54.3	124.8	150.9	198.7	225.1	227.2	164.7	138.6	90.8	64.4	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	27.1	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	38.5	13.6
Charges and interest [3]	51.8	90.9	123.9	130.9	124.7	117.2	102.4	81.7	67.0	55.2	45.7	38.9	35.2	33.3	31.5	29.8	28.0	26.3	24.5	22.8	21.0	19.3	17.9
Total Obligations Based on Existing and Prospective Credit [2, 4]																							
Millions of SDRs	73.4	90.9	206.4	334.9	400.9	509.3	604.8	610.4	505.0	416.2	312.8	213.6	94.5	74.0	72.2	70.5	68.7	67.0	65.2	63.5	61.7	57.8	31.5
Millions of U.S. dollars	97.9	121.0	276.9	450.5	539.6	686.8	816.2	823.8	681.5	561.7	422.1	288.3	127.6	99.8	97.4	95.1	92.7	90.4	88.0	85.7	83.3	78.0	42.5
Percent of exports of goods and services	0.8	0.9	1.9	2.9	3.2	3.8	4.1	3.8	2.9	2.2	1.5	1.0	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Percent of debt service	2.7	2.1	5.4	8.6	10.8	12.0	14.9	12.7	9.3	7.7	5.2	3.2	1.4	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.3
Percent of GDP	0.1	0.1	0.2	0.4	0.4	0.5	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	1.3	1.5	3.1	4.7	5.2	6.2	6.8	6.7	5.5	4.2	3.1	2.0	0.8	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2
Percent of quota	18.0	22.3	51.0	83.0	99.4	126.5	150.4	151.8	125.5	103.5	77.8	53.1	23.5	18.4	17.9	17.5	17.1	16.7	16.2	15.8	15.4	14.4	7.8
Principal	21.6	-	82.6	204.0	276.2	392.2	502.4	528.7	437.9	361.0	267.1	174.7	59.4	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	38.5	13.6
GRA	0.0	0.0	28.3	79.2	125.3	193.5	277.4	301.6	273.3	222.4	176.3	108.0	24.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	21.6	0.0	54.3	124.8	150.9	198.7	225.1	227.2	164.7	138.6	90.8	64.4	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	27.1	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	38.5	13.6
Outstanding Fund Credit Based on Existing and Prospective Credit [4]																							
Millions of SDRs	2,051.8	3,022.0	3,581.4	3,377.4	3,101.2	2,709.0	2,206.6	1,677.8	1,239.9	878.9	611.8	437.1	377.7	337.0	296.3	255.6	214.9	174.2	133.4	92.7	52.0	13.6	0.0
GRA	980.8	1,519.2	1,781.0	1,701.9	1,576.6	1,383.1	1,105.7	804.1	530.9	308.5	132.2	24.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	1,071.0	1,367.2	1,393.2	1,268.4	1,117.5	918.8	693.8	466.6	301.9	163.3	72.5	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	135.7	407.1	407.1	407.1	407.1	407.1	407.1	407.1	407.1	407.1	404.8	377.7	337.0	296.3	255.6	214.9	174.1	133.4	92.7	52.0	13.6	0.0
Millions of U.S. dollars	2,737.1	4,023.3	4,804.0	4,542.9	4,174.0	3,653.0	2,977.8	2,264.2	1,673.2	1,186.1	825.6	589.8	509.7	454.8	399.9	344.9	290.0	235.0	180.1	125.1	70.2	18.3	0.0
Percent of exports of goods and services	21.7	30.4	33.7	29.1	24.7	20.0	14.9	10.4	7.0	4.6	3.0	2.0	1.6	1.4	1.1	0.9	0.7	0.5	0.4	0.2	0.1	0.0	0.0
Percent of debt service	75.3	69.9	93.5	87.2	83.2	63.9	54.5	35.0	22.8	16.2	10.1	6.6	5.5	4.5	3.9	3.3	2.6	2.0	1.4	1.0	0.5	0.1	0.0
Percent of GDP	2.5	3.3	3.9	3.7	3.3	2.7	2.0	1.5	1.0	0.7	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Percent of gross international reserves	37.3	48.9	54.2	47.0	40.3	32.8	24.8	18.4	13.6	8.9	6.2	4.1	3.3	2.6	2.1	1.6	1.3	1.0	0.7	0.5	0.3	0.1	0.0
Percent of quota	378.0	556.7	659.8	622.2	571.3	499.1	406.5	309.1	228.4	161.9	112.7	80.5	69.6	62.1	54.6	47.1	39.6	32.1	24.6	17.1	9.6	2.5	0.0
GRA	180.7	279.9	328.1	313.5	290.5	254.8	203.7	148.1	97.8	56.8	24.4	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	197.3	251.9	256.7	233.7	205.9	169.3	127.8	86.0	55.6	30.1	13.4	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	25.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	74.6	69.6	62.1	54.6	47.1	39.6	32.1	24.6	17.1	9.6	2.5	0.0
Net Use of Fund Credit (millions of SDRs)																							
Disbursements and purchases	306.7	970.2	641.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	21.6	0.0	82.6	204.0	276.2	392.2	502.4	528.7	437.9	361.0	267.1	174.7	59.4	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	38.5	13.6
Memorandum Items:																							
Exports of goods and services (millions of U.S. dollars)	12,625	13,242	14,272	15,592	16,870	18,300	20,008	21,810	23,739	25,513	27,252	29,235	31,370	33,667	36,130	38,932	41,937	45,178	48,709	52,559	56,716	61,371	66,351
Debt service (millions of U.S. dollars)	3,637	5,759	5,141	5,210	5,016	5,713	5,466	6,464	7,331	7,302	8,194	8,946	9,284	10,115	10,376	10,588	11,100	12,013	12,634	12,987	14,084	14,123	13,902
Nominal GDP (millions of U.S. dollars)	108,039	121,769	122,196	121,677	126,983	135,752	145,470	155,387	165,568	175,811	186,393	197,974	210,283	223,361	237,263	251,943	267,543	284,112	302,424	323,439	344,347	371,090	397,519
Gross International Reserves (millions of U.S. dollars)	7,341	8,234	8,858	9,657	10,351	11,136	11,998	12,299	12,303	13,395	13,407	14,358	15,492	17,562	19,043	21,383	22,184	24,296	25,959	27,348	27,362	26,498	27,174
Average exchange rate: SDR per U.S. dollars	0.7496	0.7511	0.7455	0.7434	0.7430	0.7416	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410	0.7410
Quota (millions of SDRs)	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8

Sources: IMF, Finance Department; and staff estimates and projections.

[1] End of period.
[2] Repayment schedule based on scheduled debt service obligations.
[3] Using the GRA rate of charge of 4.651 (as of October 1, 2024).
[4] Using the USD/SDR rate of 1.350490 as of October 1, 2024 in 2024–45 forecasts.

Table 9. Kenya: Decomposition of Public Debt and Debt Service by Creditor, 2023–26[1]

	Debt Stock (end of period)			Debt Service					
	2023			2024	2025	2026	2024	2025	2026
	(In US$ mln)	*(Percent total debt)*	*(Percent GDP)* [2]	*(In US$ mln)*			*(Percent GDP)*		
Total	**70,606**	**100.0**	**73.1**	**13,703**	**11,305**	**10,075**	**11.3**	**9.3**	**8.3**
External	**38,995**	**55.2**	**40.4**	**5,362**	**4,558**	**4,652**	**4.4**	**3.7**	**3.8**
Multilateral creditors	19,418	27.5	20.1	795	1,118	1,445	0.7	0.9	1.2
IMF	2,682	3.8	2.8	-	-	-	-	-	-
World Bank	12,387	17.5	12.8	-	-	-	-	-	-
African Development Bank	3,792	5.4	3.9	-	-	-	-	-	-
European Economic Community (incl. EIB)	199	0.3	0.2	-	-	-	-	-	-
International Fund For Agricultural Development	255	0.4	0.3	-	-	-	-	-	-
Other Multilaterals	103	0.1	0.1	-	-	-	-	-	-
o/w: Arab Bank For Economic Development In Africa	54	0.1	0.1	-	-	-	-	-	-
Nordic Development Fund	23	0.0	0.0	-	-	-	-	-	-
Bilateral Creditors	9,374	13.3	9.7	1,486	1,450	1,410	1.2	1.2	1.2
Paris Club	3,225	4.6	3.3	462	456	430	0.4	0.4	0.4
o/w: Japan	1,227	1.7	1.3	-	-	-	-	-	-
France (incl. AFD)	739	1.0	0.8	-	-	-	-	-	-
Non-Paris Club	6,149	8.7	6.4	1,024	994	980	0.8	0.8	0.8
o/w: EXIM China	5,994	8.5	6.2	-	-	-	-	-	-
EXIM India	57	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	10.1	7.4	2,396	813	844	2.0	0.7	0.7
Commercial creditors	2,766	3.9	2.9	611	1,058	880	0.5	0.9	0.7
o/w: Trade and Development Bank	1,856	2.6	1.9	-	-	-	-	-	-
China Development Bank	0	0.0	0.0	-	-	-	-	-	-
Other international creditors	336	0.5	0.3	74	119	74	0.1	0.1	0.1
o/w: Intesa SanPaolo	195	0.3	0.2	-	-	-	-	-	-
ING Bank Germany	41	0.1	0.0	-	-	-	-	-	-
Domestic[3]	**31,611**	**44.8**	**32.7**	**8,341**	**6,747**	**5,423**	**6.9**	**5.5**	**4.5**
Held by non-residents, total	214	0.3	0.2	-	-	-	-	-	-
T-Bills	3,495	5.0	3.6	-	-	-	-	-	-
Bonds	27,303	38.7	28.3	-	-	-	-	-	-
Loans	813	1.2	0.8	-	-	-	-	-	-
Memo items:			0.0						
Collateralized debt	0	0.0	0.0	-	-	-	-	-	-
o/w: Related	0	0.0	0.0	-	-	-	-	-	-
o/w: Unrelated	0	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	966	1.4	1.0	-	-	-	-	-	-
o/w: Public guarantees [4]	966	1.4	1.0	-	-	-	-	-	-
o/w: Other explicit contingent liabilities [5, 6]	n.a.	n.a.	n.a.	-	-	-	-	-	-
Nominal GDP (at average Ksh/$ rate)	108,039	-	-	-	-	-	-	-	-

Sources: Kenyan authorities; and IMF staff calculations.

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as in the DSA.

[2] Debt ratios are constructed by converting external debt to Ksh using end-period exchange rate and dividing by Ksh GDP.

[3] Includes CBK on-lending to the government of the Ksh-equivalent of the 2021 general allocation of SDRs.

[4] Loan guarantees are included in the perimeter of debt covered by the DSA and include undrawn amount of government-guaranteed loan facilities and letters of credit at high risk of being fully utilized

[5] Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

[6] Capacity constraints currently limit data availability on other explicit liabilities not elsewhere classified.

Table 10. Kenya: Decomposition of Public Debt, 2023–26[1]

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

	Actual	Projections		
	2023	2024	2025	2026
	(In US$ mln)	*(In US$ mln)*		
Creditor profile				
Total	**70,606**	**79,025**	**78,942**	**80,409**
External	**38,995**	**41,065**	**42,395**	**43,640**
Multilateral creditors	19,418	22,572	24,657	25,649
IMF	2,682	4,041	4,725	4,445
World Bank	12,387	14,202	15,725	17,133
African Development Bank	3,792	3,800	3,712	3,609
Other Multilaterals	557	528	495	461
Bilateral Creditors	9,374	8,798	8,636	9,002
Paris Club	3,225	3,083	3,150	3,497
Non-Paris Club	6,149	5,715	5,486	5,505
Private creditors	10,202	9,627	9,035	8,921
Bonds	7,100	6,600	6,900	7,450
Commercial creditors	3,102	3,027	2,135	1,471
Domestic	**31,611**	**37,961**	**36,547**	**36,770**
Memorandum items				
Collateralized debt	0	0	0	0
o/w: Related	0	0	0	0
o/w: Unrelated	0	0	0	0
Nominal GDP (at average Ksh/$ rate)	108,039	121,769	122,196	121,677
Multilateral and collateralized debt [2]				
Multilateral debt				
Percent of external debt	49.8	55.0	58.2	58.8
Percent of GDP	18.0	18.5	20.2	21.1
o/w: IMF and WB				
Percent of external debt	38.6	44.4	48.2	49.4
Percent of GDP	13.9	15.0	16.7	17.7
o/w: African Development Bank				
Percent of external debt	9.7	9.3	8.8	8.3
Percent of GDP	3.5	3.1	3.0	3.0
o/w: Other multilateral				
Percent of external debt	1.4	1.3	1.2	1.1
Percent of GDP	0.5	0.4	0.4	0.4
Collateralized debt				
Percent of external debt	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0

Sources: Kenyan authorities; and IMF staff calculations.

[1]As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as in the DSA.

[2] Debt ratios are constructed by converting external debt to Ksh using end-period exchange rate and dividing by Ksh GDP.

Table 11. Kenya: RSF Reform Priorities and Reform Measures (RM)

5th EFF/ECF Reviews July 2023	6th EFF/ECF Reviews November 2023	7th EFF/ECF Reviews May 2024	8th EFF/ECF Reviews October 2024	9th EFF/ECF Reviews March 2025
RSF approval	**1st RSF Review**	**2nd RSF Review**	**3rd RSF Review**	**4th RSF Review**
Reform Priority 1: Incorporating climate risks into planning and investment framework		**RM2:** National Treasury to conduct long-term fiscal sustainability analysis under different climate change scenarios and publish the results in the Fiscal Risk Statement starting in FY2024/25.	**RM5:** National Treasury to (i) develop a standardized climate change and disaster risk methodology to be integrated in project appraisal, (ii) include climate considerations in project selection criteria and (iii) reflect the use of the analysis in project concept notes, feasibility studies, and the publication of the project selection criteria.	**RM8:** National Treasury to implement a prototype of climate budget tagging in key climate sensitive sectors, develop guidelines (applied to all sectors) in the FY2024/25 MTEF circular for budget preparation with a clear definition of climate-related expenditure, and publish the results.
Reform Priority 2: Mobilizing climate-revenue and strengthening efficiency		**RM3:** Subject to Parliamentary approval, National Treasury to implement carbon pricing in line with IMF recommendations to better reflect the externalities of fossil fuel consumption and to achieve emissions reduction targets in line with the updated NDC.	**RM6**: National Treasury to adopt priority fiscal incentives in agriculture, water, and land management sectors, as listed in the draft National Green Fiscal Incentive Policy Framework. **RM7**: Cabinet to approve net metering regulation, electricity market, bulk supply, and open access regulations, including rates determination methodology to promote energy efficiency, electricity wheeling and distributed renewable power generation in the residential, commercial, and industrial sectors including Special Economic Zones and Industrial Parks.	
Reform Priority 3: Enhancing effectiveness of existing frameworks to support climate finance		**RM4:** CBK to develop a draft green finance taxonomy adapted to Kenya's updated NDC and circulate the draft for stakeholder consultation.		**RM9:** CBK to (i) adopt a green finance taxonomy adapted to Kenya's updated NDC and reflecting stakeholders' comments, (ii) issue guidelines for the implementation of climate related disclosures for the banking sector in line with international best practices, and (iii) introduce time-bound targets for the implementation of climate disclosure requirements.
Reform Priority 4: Strengthening disaster risk reduction and management	**RM1**: Cabinet to adopt the National Framework for Climate Services to enable dissemination of a digital early warning system platform for a multi-sector climate-related information to most vulnerable counties, including ASAL and coastal regions.			

Annex I. Poverty Reduction and Growth Strategy

This annex summarizes Kenya's Fourth Medium Term Plan, 2023–27, launched in March 2024, which fulfills the Poverty Reduction and Growth Strategy (PRGS) requirements.[1] *The EFF/ECF arrangements and the PRGS are aligned with promoting growth and further reducing in poverty by improving productivity, reducing inequalities, and strengthening resilience through creation of jobs, eradication of hunger, expanding the tax revenue base and building up of foreign exchange reserves through promotion of exports.*

1. **Kenya made significant progress in socio-economic outcomes over the past one and a half decades.** Kenya is one of the faster growing economies in the continent. Since becoming a lower middle-income country (LMC) in 2014, Kenya's per capita income has grown at a faster pace than other LMCs. However, growth underperformed expectations under the prior plans, with a notable decline in the shares of the manufacturing sector and exports to national income and high unemployment levels among the youth. Tax revenues, as a share of GDP, declined during the previous two plans (the only East African Community country with such a decline over the past decade). Poverty had declined prior to the COVID-19 pandemic but post-pandemic remains higher, along with worsening of undernourishment. Income inequality improved slightly. Some of the notable improvements in social, development, and environmental indicators include higher life expectancy and lower maternal, infant, and under-5-year mortality rates; increased child immunization and lower HIV prevalence; a rise in gross enrolment ratios in secondary schools, improved teacher-pupil ratio, and a decline in gender gap in education, including in higher education; and improved access to clean and safe water and an increase in national forest cover.

2. **However, challenges remained.** The authorities assess that past underachievement in some of the key macroeconomic indicators were not only linked to shocks (e.g., the COVID-19 pandemic, global economic and geo-political developments, and climate shocks, including the droughts) but also to reliance on rain-fed agriculture and primary commodities; persistently large trade deficit, including from exchange rate misalignment; low domestic savings and investment; below-expectation returns from the past debt-financed investments; and institutional failures, including use of consumption subsidies, market failure, and weak governance and accountability. Additionally, despite a worsening of poverty post-pandemic, the share of vulnerable people covered by the social protection systems declined between FY2019/20 and FY2021/22, attributable to limited funding. According to the Sustainable Development Goals Report 2023, Kenya's performance score was 60.9, broadly unchanged since 2018, though better than the Sub-Saharan African average.

[1] Under the Fund's Poverty Reduction and Growth Trust (PRGT), for an ECF arrangement with an initial duration of more than two years, a national document is required to be transmitted to the IMF Executive Board to establish the authorities' plans are consistent with the PRGT's goals of "strong and durable poverty reduction and growth".

3. Against this backdrop, In March 2024, Kenya launched its Fourth Medium Term Plan, 2023–27 (MTP-IV).[2] This is the latest plan for implementation of the Kenya Vision 2030 which has guided Kenya's development planning since 2008. The vision aims to create "a globally competitive and prosperous country with a high quality of life by 2030." The MTP-IV also serves the purpose in furthering the achievement of the targets under the United Nations Sustainable Development Goals 2030 and the Africa Union Agenda 2063. The MTP-IV aims to achieve inclusive growth and economic transformation, consistent with the Bottom-up Economic Transformation Agenda (BETA) of the current administration. The plan focuses on key sectors such as agriculture, housing, healthcare, and digital economy, and emphasizes policy, legal, and institutional reforms.

4. The MTP-IV was prepared through a consultative stakeholder process and public participation in all the counties. Stakeholder engagement and public participation, as also provided for in the Kenyan Constitution, are integral to the development of the MTP-IV. Various stakeholders were engaged in the formulation of the plan, including the public; Ministries, departments, and agencies (MDAs); Council of Governors; county governments; Parliament; the United Nations agencies and other development partners; private sector; civil society organizations; and research institutions and academia. The County Integrated Development Plans 2023–27 and the MDA's Strategic Plans are aligned with the MTP-IV for a whole of government approach to support implementation of the MTP-IV.

5. The MTP-IV envisages achieving the Kenya Vision 2030 through implementation of the authorities' development agenda under BETA. Given Kenya's level of poverty, unemployment, especially among the youth, and out-sized share of the informal sector in employment, the BETA focuses on the bottom of the pyramid. It prioritizes six objectives: lowering cost of living, eradicating hunger, creating jobs, expanding the tax base, higher foreign exchange reserves, and inclusive growth. To achieve these, five core pillar are identified: agriculture; small, medium, and micro enterprises; housing and settlement; healthcare; digital superhighway and creative economy (e.g., fine arts, sports); and public institutions. These are to be implemented through programs, projects, and reforms in five sectors: finance and production, infrastructure, social, environment and natural resources, and governance and public administration (Text Table AI.1). The authorities have already launched a Financial Inclusion Fund (commonly known as "Hustler Fund") and have passed laws to establish a framework for development and accessibility of affordable housing, and to move toward universal healthcare. In addition, to avoid the middle-income trap, the economic transformation will focus on capital accumulation (both human and physical), market development and regulation, domestic resource mobilization and optimal tax instruments, and digital evolution. Improved valued addition and market access are expected to help attract fresh investments.

6. In support of its aspirations for inclusive growth and employment generation, the plan sees a notable improvement in growth over the medium term. The plan projects medium-term

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[2] The MTP-IV development process began in July 2021, but its launch was delayed following the significant economic challenges of the past two years and the need for aligning it with the policy priorities of the new administration, which came into office in September 2022.

growth improving to 7.2 percent by 2027, supported by the five core pillars mentioned above, that will help in achieving the plans aspiration of nearly doubling the manufacturing sector's share in GDP by FY2027/28 and creating 1.2 million jobs annually with the share of the formal sector in total employment more than doubling. Creation of fiscal space (overall deficit declining to 2.9 percent of GDP by FY2027/28) through higher revenue mobilization (e.g., implementation of the National Tax Policy and the Medium-Term Revenue Strategy, MTRS) and expenditure prioritization (e.g., common payroll system, efficiency of public investment, strengthening of public procurement, public private partnership, pension reforms, improved governance at the state corporations, identification and mitigation of fiscal risks, and Treasury Single Account) to focus spending on the authorities' priority areas, including investments in dams to double the irrigated area, construction of affordable housing units, and improving road, rail, and digital connectivity. Pursuit of modern monetary policy to keep inflation anchored around the target of 5 percent. The plan envisages current account deficit widening even as remittances and exports grow. Public debt/GDP will decline, and FX reserve adequacy will go well beyond four months of imports.

Text Table AI.1. Kenya: The MTP-IV—Program, Projects, and Reforms Under the Five Sectors

Finance and production	Infrastructure	Social	Environment and natural resources	Governance and public administration
Enhance production, value addition, and market access and attract new investments.	*Increase investments, including expanding irrigation infrastructure, affordable housing, and improving connectivity.*	*Improve quality of life by accelerating human capital development and social welfare.*	*Sustainable utilization of endowment in culture, heritage, mineral resource, the blue economy and maritime.*	Enhance security capabilities and welfare, improving service delivery, strengthening devolution, and transforming judicial and legal services.
Focus areas: Livestock (leather, leather products, and dairy); crops (tea, edible oils, and rice); textile and apparel; construction materials.	**Focus areas:** Transport connectivity; small dams and water pans; affordable housing; communication and broadcasting systems; green energy generation and distribution.	**Focus areas:** Universal healthcare coverage; social protection; human capital development; science, technology, and innovation; economic empowerment.	**Focus areas:** Disaster management; natural resource conservation, restoration, and management; sustainable waste management and pollution control; sustainable exploitation of natural resources and blue economy (the seas); and tourism promotion and marketing.	**Focus areas:** Strengthening security capabilities; improving citizen services; improving intra-government services; promoting human rights; judicial transformation; leadership accountability.

Source: Kenyan authorities.

7. The goals and strategies of Kenya's MTP-IV are broadly aligned with the objectives, framework, and policy discussions under the EFF/ECF arrangements (Text Table AI.2). Although economic circumstances have evolved during the preparation and launch of the MTP-IV, its overall goals and strategies are supportive of growth and job creation and improving competitiveness and efficiency, all of which should help make further inroads into the fight against poverty. Creating fiscal space is at the core of the EFF/ECF program in addressing Kenya's debt vulnerabilities and for implementing growth-friendly social, developmental, and climate-resilient expenditure. Also, a policy landscape supportive of further private sector vibrancy would anchor medium-term growth. In this context, the goals of higher domestic revenue mobilization and expenditure rationalization in the MTP-IV are consistent with the program. Improving governance and strengthening the anti-corruption and accountability framework would also help in realizing the medium-term revenue goals and in better utilization of public resources, including for social and developmental purposes. However, with global financing conditions projected to remain tighter than their pre-COVID-19 average, the program does not envisage the medium-term current account deficit reverting back to its historically higher level. While remittances and exports will remain supportive, further exchange rate flexibility will also play an important role in ensuring external sustainability and acting as a buffer against external shocks. Exchange rate flexibility and policy efforts should keep FX reserves adequate, projected at around four months of import coverage. Against this backdrop and following impact from recent deceleration in capital accumulation and cuts in development spending on account of social protests against the new tax measures proposed in the context of the 2024 Finance Bill, the program's medium-term growth projection is more modest relative to the MTP-IV at 5 percent—yet better than Kenya's average growth over the past decade—and anchored on slower improvements in savings and investments.

Text Table AI.2. Kenya: Macroeconomic Framework

(In percent of GDP unless otherwise mentioned)

	2023	The MTP-IV			EFF/ECF arrangements		
	Actual	2023/24	2024/25	2027/28	2024	2025	2028
Real GDP growth (percent)	5.6	5.9	6.3	7.2	5.0	5.0	5.0
Inflation (average, percent)	7.7	6.3	5.0	5.0	5.0	5.3	5.0
Investment	16.4	20.7	22.7	26.7	16.7	17.7	19.8
Saving	12.4	15.3	17.0	20.8	12.8	13.7	15.7
Total revenue (incl. grants)[1]	16.7	18.9	19.1	20.0	17.2	18.0	19.6
Total expenditure[1]	22.5	24.2	23.5	22.9	22.8	22.3	22.9
Overall fiscal balance[1, 2]	-5.6	-5.3	-4.4	-2.9	-5.6	-4.3	-3.3
Public debt, net	70.0	65.4	62.7	53.7	63.8	66.2	63.7
Current account balance	-4.0	-5.3	-5.7	-5.9	-3.9	-4.0	-4.1
Gross official reserves							
In months of current year's imports	4.0	5.8	5.9	6.1	4.3	4.4	4.5
In months of next year's imports	3.8	…	…	…	4.1	4.1	4.2

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

[1] On a fiscal year basis. For example, 2023 refers to FY2022/23 that ended in June 2023.

[2] Includes adjustments to cash basis for the FY2022/23 overall fiscal balance.

Annex II. Risk Assessment Matrix[1]

Sources of Risks	Likelihood	Expected Impact on Economy	Policy Response
Potential External Shocks			
Global growth surprises: • *Slowdown.* Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. • *Acceleration.* Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	Medium Low	**Medium.** This could adversely impact growth, spur capital outflows from the private sector and pressure the exchange rate. Fiscal balances would worsen, including due to balance sheet scarring in the private sector, and debt vulnerabilities would rise further.	• Adopt mutually reinforcing monetary and fiscal policy stances; • Reprioritize spending to support the vulnerable while compressing overall expenditure to contain the negative fiscal-debt impact; • Greater exchange rate flexibility; • Accelerate reforms to address structural weakness affecting competitiveness.
Monetary policy miscalibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	Medium	**High.** This could trigger capital outflows from the private sector and hamper capital market access by the sovereign. The exchange rate would face depreciation pressures, the fiscal balances would worsen, and debt vulnerabilities would rise further.	• Tighten monetary policy; • Greater exchange rate flexibility; • Compress expenditure to contain the negative fiscal-debt impact;
Sovereign debt distress. Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	Medium	**High.** External financing challenges would create fiscal pressures, spur capital outflows, and FX reserves would come under pressure. Fiscal balances would worsen, including due to balance sheet scarring in the private sector, and debt vulnerabilities would rise.	• Tighten monetary policy and adopt mutually reinforcing fiscal policy; • Greater exchange rate flexibility; • Mobilize domestic resources, protect social and developmental spending, and contain the negative fiscal-debt impact;

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Sources of Risks	Likelihood	Expected Impact on Economy	Policy Response
			• Accelerate reforms to address structural weakness affecting competitiveness.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressure, and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High	High. Supply disruptions and market volatility in global commodity prices would increase external and domestic imbalances and weigh on inflation and economic growth.	• Keep domestic fuel pump prices aligned with global prices while compressing expenditure to contain fiscal pressures; • If the shock is persistent, tighten monetary policy to ensure inflationary expectations remain well-anchored; • Greater exchange rate flexibility; • If the further shock is very large, consult with staff on the overarching objective of fiscal consolidation to reduce debt vulnerabilities.
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium. Such sanctions could disrupt imports of fertilizer and wheat and raise borrowing costs and limit options for nonconcessional external financing.	• Diversify sources of imports for key inputs and staples (e.g., fertilizer, wheat); • Deploy targeted support to most vulnerable leveraging existing assistance programs; • Consider alternative financing mixes, including medium-term syndicated loans.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a	High	Medium. This could adversely impact growth, spur capital outflows from the private sector and pressure the exchange rate.	• Reprioritize spending to support the vulnerable while compressing overall expenditure to contain the negative fiscal-debt impact; • Greater exchange rate flexibility; • Accelerate reforms to

Sources of Risks	Likelihood	Expected Impact on Economy	Policy Response
fracturing of international monetary system, and lower growth.			address structural weakness affecting competitiveness.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**Medium.** Such attacks can trigger financial instability or widely disrupt socio-economic activities.	• Continue reforms to strengthen cyber security capabilities at both government and private sector level.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	**Medium**	**High.** This would lead to slower growth, an increase in food inflation, pressures on public spending and the current account, and adversely affect vulnerable households.	• Guard against second-round effects on inflation; • Use targeted programs to help vulnerable groups and reprioritize spending.
Potential Domestic Shocks			
Political risks.	**High**	**High.** Unrest could intensify in connection to revenue and other adjustment measures needed to contain debt vulnerabilities, delaying their implementation.	• Activate contingency fiscal policy measures, as required, and accelerate deep-seated reforms, including on governance and anti-corruption, to ensure policy credibility and debt sustainability. • Build consensus on policy measures and reforms needed for debt sustainability through broad public consultation and effective communication.
Adverse weather conditions.	**Medium**	**High.** Depending on the geographical area impacted this could lead to lower agricultural production and slower growth, an increase in food inflation, pressures on public spending and the current account, and adversely affect vulnerable households.	• Use targeted programs to help vulnerable groups and reprioritize spending; • As necessary, guard against second-round effects on inflation.

Sources of Risks	Likelihood	Expected Impact on Economy	Policy Response
Systemic financial instability. Sharp swing in exchange rate, due to domestic monetary or fiscal policy miscalibration triggers capital shortfalls at some banks with large FX exposures, causing financial stress, markets dislocations and adverse cross-border spillovers.	Medium	**High.** This could hamper the functioning of interbank markets and further exacerbate domestic and FX illiquidity conditions. The exchange rate could overshoot, and private credit severely constrained, net domestic financing will be constrained, and debt vulnerabilities would rise further.	• Deploy measures to stabilize the banking sector; • Execute a plan for outstanding pending bills and avoid accumulation of new pending bills.
Materialization of fiscal contingent liabilities.	High	Medium. This would create additional fiscal pressures, worsening the debt dynamics and potentially leading to further crowding out of the private sector, although the magnitude would be highly uncertain.	• Continued assessment of sources of contingent liabilities (e.g., state corporations and government-linked entities, the G2G oil importation scheme); • Implement least-cost strategies to address SOE financial pressures.
Deterioration in security situation.	Medium	**High.** This would adversely affect recovery of the tourism sector, foreign direct investment, and portfolio inflows and, in turn, growth.	• Reprioritize fiscal spending to accommodate security needs; • Maintain policies to improve macro fundamentals (e.g., structural and governance reforms).

Appendix I. Letter of Intent

Nairobi, Kenya, October 18, 2024

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

Dear Ms. Georgieva:

Kenya is at a delicate juncture confronted with a need to chart a course following the recent public protests against the package of tax measures we proposed in the 2024 Finance Bill intended to put our fiscal position on a sustainable path.

Since the completion of the sixth EFF/ECF reviews in January 2024, we successfully issued a Eurobond in February 2024 and simultaneously bought back US$1.5 billion of the US$2 billion Eurobond maturing in June 2024. We settled the remaining US$500 million under this bond in June. Along with the substantial financial assistance from the IMF and the World Bank, the move alleviated the near-term external liquidity and refinancing risks facing the country. The positive market confidence supported private external inflows into the local bond market. Against this backdrop, and supported by a tight monetary policy stance, the shilling has strengthened markedly this year. This has facilitated substantial FX purchases to support reserves buildup by the Central Bank of Kenya (CBK).

The Kenyan economy continues to demonstrate resilience despite a challenging domestic and external environment. Real GDP grew 5.6 percent in 2023 and by 4.8 percent in the first half of 2024, largely driven by a strong rebound in the agricultural sector, which benefited from favorable weather conditions after two years of severe droughts. Additionally, services sectors remained resilient, with tourism, transport, real estate, financial, and ICT services supporting growth. Good harvests, strong shilling, and lower global prices have allowed the headline inflation (September: 3.6 percent y/y) to ease below the target level (5.0 percent y/y) since June. Accordingly, the CBK has reduced the monetary policy rate in two steps since August by a cumulative 100 basis points to 12 percent.

Tax collections, however, underperformed in FY2023/24, partly due to failure to enact envisaged amendments to the 2023 tax legislation against the backdrop of a difficult domestic socio-political environment. Despite this situation, tax revenues grew by 11.3 percent y/y in FY2023/24 but fell short of the target by about Ksh.329 billion (about 2 percent of GDP). As a result, fiscal deficit exceeded the envelope agreed under the program, keeping domestic borrowing costs elevated. Economic factors like subdued growth outside the agricultural sector also contributed to the underperformance. The fiscal deficit is estimated to have reached 5.3 percent of GDP in FY2023/24.

Public debt reached 73.1 percent of GDP in 2023 but eased to an estimated 67.2 percent of GDP by June 2024 on exchanged rate appreciation.

We made a concerted effort to bring the fiscal consolidation plans back on track in FY2024/25 to restore fiscal discipline. While the FY2024/25 Budget was passed with stringent expenditure controls, the 2024 Finance Bill, which included critical revenue-enhancing measures, could not be enacted following strong nationwide public protests. As a result, a significant fiscal gap was created which was partly addressed through additional spending rationalization under the Supplementary FY2024/25 Budget, passed in late July, while also considering some nontax revenue measures. As spending pressures have already materialized, we are committed to preserving the primary balance target by implementing new revenue measures through a tax laws amendment bill, and further prioritizing and rationalizing spending through a Supplementary II FY2024/25 Budget to close any residual gap. This effort, complemented by our commitment to further medium-term fiscal consolidation, is a first step toward achieving our debt anchor. Even in this socio-politically challenging environment, we commit to implementing decisive measures to safeguard macroeconomic stability through other policy measures, including on monetary policy which has helped stabilize inflation expectations and preserve external stability.

The government remains fully committed to policies and reforms underpinning the objectives of the IMF-supported program, both under the EFF/ECF and RSF arrangements. The administration intends to continue bolstering economic resilience by pursuing prudent policies geared at ensuring macroeconomic stability, durably reducing debt vulnerabilities, and supporting sustainable, inclusive, and climate-resilient development. We will also strengthen implementation of governance reforms in anti-corruption and effectiveness of the AML/CFT framework and have requested for a governance diagnostic to identify and chart a way forward to address governance weaknesses in our institutions.

To support our efforts under the program and with a decline in the exceptional balance of payment needs following access to the international capital markets earlier in the year, we request the completion of the seventh and the eighth EFF/ECF reviews, rephasing, reduction of access under the EFF arrangement by 61.97 percent of quota (SDR336.39 million), and augmentation of access under the ECF arrangement by 21.67 percent of quota (SDR 117.66 million) to bring total access under the program to 500 percent of quota (SDR2,714 million). This is consistent with bringing cumulative access to Fund resources within the normal cumulative access limit and recalibration of access toward the more concessional financing under the ECF arrangement in line with IMF policy on blended programs. Following the approval of completion of the seventh and the eighth EFF/ECF reviews, we request to make available an amount equivalent to SDR365.28 million (67.30 percent of quota, out of which SDR202.52 million or 37.31 percent of quota as budget support).

We request waivers for the nonobservance of the end-December 2023 QPC on tax revenue and for the end-June 2024 QPCs on primary budget balance and tax revenue based on the corrective action taken through the passage of the Supplementary FY2024/25 Budget in July, consistent with program parameters. We commit to pursue fiscal consolidation in FY2024/25, as under the Supplementary FY2024/25 Budget and by using any additional revenue and/or divestment measures during the

course of the fiscal year to not let the fiscal deficit worsen from 4.3 percent of GDP amid any new spending pressures, and by ensuring our medium-term fiscal framework, which is aligned with the program's baseline, delivers the broader program objective of addressing Kenya's debt vulnerabilities. We confirm that the end-June 2024 QPCs on net international reserves, no new domestic guarantees, and present value of contracting or guaranteeing of new external debt and the continuous QPC on no new external payment arrears were met. We also request modifications of program conditionalities for the design of the revenue related QPC to broaden the scope with effect from the end-December 2024 test date by changing the QPC on a floor on tax revenues to an indicative target and introducing a new QPC on a floor on ordinary revenues (tax and nontax revenues, excluding earmarked revenue). Further, we request modifications of the end-December 2024 QPCs for the primary budget balance floor, the net international reserves floor, and the ceiling on present value of contracting or guaranteeing of new external debt, as presented in the attached Memorandum of Economic and Financial Policies.

The government remains committed to the structural reforms that are crucial to achieving the objectives of our economic program. However, various circumstances led to delays in most of the structural benchmarks (SBs) outlined for the period from January to June 2024. The end-February benchmark, which focused on establishment of the Steering Committee to oversee the implementation of the Medium-Term Revenue Strategy (MTRS) was met. Meanwhile, on the benchmarks concerning the strategy for pending bills, set for the end of February, was approved by the Cabinet on June 11, 2024 and published in late July. The budget and finance bill for FY2024/25 was submitted by end-April 2024 but required further amendments to strengthen the proposed measures and reestablish the fiscal consolidation path following a delayed submission of a second Supplementary FY2023/24 Budget that was not consistent with program targets. Implementation of the end-March 2024 benchmark regarding revision of the Petroleum Development Fund's governance structure, underscoring our commitment to transparency and fiscal responsibility, was also delayed and we published a report in early August.

Regarding our reform initiatives for the state corporations (SCs), we are focusing on enhancing their efficiency which will allow higher net flows to the exchequer in the form of higher dividends and lower transfers. While we remain committed to delivering on the reforms related to SCs under the program, we require more time to deliver on two of the related SBs. The end-May 2024 SB for legal amendments that establish the new Ownership Policy for state corporations is now proposed to be rescheduled to end-November 2024 following delays arising from longer-than-expected legal drafting process. The end-April 2024 SB, which pertained to the formulation of a new strategy for restructuring Kenya Airways, is also proposed to be rescheduled to end-November 2024 considering the additional time needed for some priority actions. Additionally, the end-January 2024 benchmark that required an updated inventory and classification of SOEs was made public on July 10, 2024, via publication of the revised guidelines that underpinned a May 2024 gazetted Executive Order on terms and conditions of service for the Board members and staff of state corporations. However, the published guideline did not fulfill the SB as it did not specify that such classification would apply for other purposes across the government as specified in the SB. On the end-June SB on financial evaluation of fifty state corporations, we have completed the evaluation based on their audited FY2022/23 accounts and commit to share the findings with the Fiscal Risk Committee by end-

October 2024. We appreciate IMF technical support in this context. We also commit to meeting the end-October 2024 SB on submitting a report to Parliament on National Treasury's involvement or investment in, or funding of, SCs and government-linked companies.

RSF-supported reform measures (RMs) are progressing but with some delays. We have completed two additional RMs since the last review: expanding the fiscal risks statement to include climate-change scenarios and drafting and circulating a green finance taxonomy for stakeholder consultation. Thus, we request the disbursements associated with these two RMs, amounting SDR90.4666 million (16.66 percent of quota) under the RSF arrangement. Implementation of other RMs is progressing, albeit with some delays, including the one on carbon pricing for which we have requested IMF technical assistance.

We consider that our policies described in the attached Memorandum of Economic and Financial Policies are adequate to achieve the program objectives under the ECF/EFF and the RSF arrangements. We remain committed to a multi-year fiscal consolidation, supported by domestic revenue mobilization and expenditure rationalization, while protecting social and development spending, to put the ratio of overall public debt to GDP on a downward trajectory and achieve our debt anchor by 2028 (overall debt/GDP of 55±5 percent in present value terms). Our monetary policy actions will remain focused on maintaining price stability and keeping inflationary expectations well anchored while ensuring external sustainability. We are also committed to advancing the structural reforms under the EFF/ECF arrangement and the reforms under the RSF to build a climate resilient economy. We will ensure that these policies are mutually reinforcing in support of maintaining macroeconomic stability and resilience, ensuring fiscal and debt sustainability, and enhancing buffers against shocks. We stand ready to take additional measures to meet the objectives of the program, and we will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached memorandum, in line with IMF policies on consultations. We will provide IMF staff timely with all the data and information needed to monitor the economic situation and implementation of policies relevant to the programs, as agreed, under the attached Technical Memorandum of Understanding, or at the IMF's request.

We authorize the publication of this Letter of Intent, the attached Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, and the related staff report and supplements, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/	/s/
John Mbadi Ng'ongo	**Dr. Kamau Thugge**
Cabinet Secretary	Governor
National Treasury & Economic Planning	Central Bank of Kenya

Attachments (2):

I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum Economic and Financial Policies

Nairobi, October 18, 2024

I. BACKGROUND

1. The Kenyan economy remains resilient. The economy registered a 5.6 percent year-on-year growth in 2023. Growth in the first half of 2024 was 4.8 percent in 2024Q1, primarily attributed to a robust rebound in the agriculture sector from the severe droughts of 2021 and 2022. Additionally, services sectors remained resilient, supported by growth in tourism, transport, real estate, financial, and ICT services. In mid-February, we issued a new 7-year Eurobond and bought back a large portion of the June 2024 Eurobond ahead of its maturity. This liability management operation allowed us to decisively address the refinancing and liquidity risks ahead of the maturity of the bond. As a result, market sentiments have improved, attracting portfolio flows to both bond and equity markets. Responding to such flows, the shilling has appreciated markedly against the U.S. dollar since mid-February after having recorded a significant depreciation in 2023.

2. Headline inflation has eased below the mid-point of the target range of 2.5–7.5 percent but nonfood, nonfuel inflation remains sticky. Headline inflation eased from 6.9 percent in January to 3.6 percent y/y in September, the lowest since December 2012. From a peak of 15.8 percent y/y in October 2022, food inflation has reached one of its post-pandemic lows (September: 5.1 percent y/y), supported by a rebound in agriculture and easing of global prices for imported food products. Fuel inflation has eased to 1.1 percent y/y from a recent high of 15.5 percent in November 2023. Nonfood, nonfuel (NFNF) inflation was 3.4 percent in September and has been largely sticky, averaging around 3.5 percent y/y since October 2023, as past tightening of monetary policy continues to work their way through. We reduced the Central Bank Rate (CBR) in August by 25 basis points and in October by 75 basis points to 12 percent. Prior to these, we had raised the CBR by a cumulative 600 basis points between May 2022 and February 2024.

3. The current account deficit narrowed to 4.0 percent of GDP in 2023 compared to 5.1 percent of GDP in 2022, supported by recovery to pre-COVID-19 levels in the tourism sector and a broad-based decline in nonfood imports. The trade balance benefitted primarily from lower imports although goods exports underperformed. The decline in imports reflected lower global fuel prices and a broad-based decline in nonfood, nonenergy imports. Goods imports in the first half of 2024 grew moderately, with a noticeable recovery in machinery and equipment imports following two years of sustained decline. Underperformance in goods exports in 2023 primarily reflected a lower demand from some key destination markets and potential impact from some domestic policy measures. Tourist arrivals rebounded faster than anticipated to their pre-COVID-19 levels but receipts from transportation services declined markedly. Export of goods improved in the first half of 2024, driven by horticulture and tea but transportation services exports lagged. Diaspora remittances remain strong, growing at double digit rates in the first eight months of 2024. Tight policies and flexible exchange rate, coupled with initiatives to attract foreign direct investment and enhance export performance, are anticipated to help stabilize the current account deficit around 4 percent of GDP in the medium term.

4. The envisaged fiscal consolidation did not materialize in FY2023/24 as tax collection significantly underperformed. The fiscal deficit, on a cash basis, narrowed marginally to 5.3 percent of GDP from 5.6 percent of GDP in FY2022/23. This was about 0.6 percent of GDP above the fiscal deficit programmed at the time of the sixth EFF/ECF reviews, driven by a tax shortfall of about Ksh.329 billion or about 2 percent of GDP (relative to the end-June 2024 target, Table 1). This tax revenue shortfall was partly offset by: (i) higher ordinary nontax revenue collection, including higher proceeds from parastatals (0.5 percent of GDP)—in part reflecting a correction in the recording of the extraordinary dividend from the Railway Development Levy Fund to clear FY2022/23 fuel subsidy arrears—and fees and charges related to immigration and citizen services (0.2 percent of GDP); and (ii) further rationalizing nonpriority projects (1.2 percent of GDP) while recognizing additional recurrent spending pressures mainly from maintenance and operational cost in the education, security, and social sectors (0.6 percent of GDP). The said tax revenue underperformance reflected continued cyclical, sectoral, and climate headwinds described in our MEFP, dated December 21, 2023, as well as setbacks in enacting the amendments to tax laws submitted to Parliament in December 2023 and lower than anticipated yields from measures under the 2023 Finance Act. Correcting this underperformance through new tax measures proposed in the 2024 Finance Bill proved untenable, as nationwide public protests forced the withdrawal of the Bill.

5. Revenue mobilization and financing challenges affected our ability to execute the FY2023/24 budget in a timely manner. The revenue shortfall relative to targets and continued financing constraints in the external and domestic markets led to cashflow challenges and associated build-up in unpaid bills and expenditure carryovers to FY2024/25 (Ksh.218.5 billion, or 1.3 percent of GDP). As a result, we have missed the end-December 2023 and end-June 2024 indicative targets (IT) on non-accumulation of exchequer requests outstanding for more than 90 days. We have also missed the one on domestic arrears for end-December 2023, but met it for end-June 2024. Revenue collection in the first two months of the current fiscal year faced headwinds from protests that led to temporary business closures and disruptions and lingering uncertainty around tax policy, with tax collection declining by 0.8 percent (y/y). Strict spending control helped contain the impact on the deficit.

6. Public debt rose in 2023 amid currency depreciation and higher borrowing costs but had eased by end-June 2024 on exchange rate appreciation. The Present Value (PV) of overall public and publicly guaranteed debt (in gross terms and as defined in the accompanying IMF-World Bank debt sustainability analysis) rose to about 68.7 percent of GDP in 2023. The public debt/GDP ratio was 73.1 percent at end-2023 and is estimated to have declined to 67.2 percent of GDP by end-June 2024 owing to exchange rate appreciation. Kenya remains at high risk of external and overall debt distress. Public debt/GDP ratio is projected to decline to the debt anchor of 55±5 percent of GDP in PV terms by 2028, supported by our medium-term fiscal consolidation efforts.

7. The banking sector has remained stable and resilient albeit with increased credit and market risks. Core and total capital adequacy ratios as of June 2024 were 16.6 and 19.1 percent, respectively—above the statutory minimum of 10.5 and 14.5 percent, respectively. At the same time,

the liquidity ratio stood at 53.5 percent, well above the statutory minimum of 20 percent. Growth in private sector credit moderated to 4 percent y/y in June 2024 compared to 12.2 percent y/y in June 2023, largely reflecting the exchange rate appreciation effects on FX loans. The gross nonperforming loans to gross loans ratio increased to 16.3 percent in June 2024 from 14.5 percent in June 2023. Accordingly, banks are working on bolstering provisioning and capital levels.

II. MACROECONOMIC OUTLOOK

8. We have launched the Fourth Medium-Term Plan (MTP-IV) 2023–27 to support our Bottom-up Economic Transformation Agenda (BETA) for inclusive growth. This is the fourth medium-term plan whose implementation will be guided by the Kenya Vision 2030 that was launched in 2008. The vision aims to transform Kenya into "a newly industrializing, middle-income country providing a high-quality life to all its citizens in a clean and secure environment." The BETA objectives are bringing down the cost of living; eradicating hunger; creating jobs; expanding the tax base; improving foreign exchange balances; and inclusive growth. The MTP-IV adopted a value chain approach, with the BETA core pillars and key enablers clustered under five sectors: finance and production; infrastructure; social; environment and natural resources; and governance and public administration. Economic growth over 2024—27 will be driven by: raising agricultural productivity; transforming the micro, small and medium enterprise economy; increasing investment in housing and settlement; strengthening healthcare through universal health coverage; and investing in the digital superhighway and creative economy.

9. Growth and inflation will ease in 2024 while over the medium term we expect growth to be slightly above the historical average as our reforms gradually pay off.

- Real GDP growth is projected at 5.0 percent in 2024 under the program baseline. Robust activity in agriculture and resilience of the services sector will contribute positively to growth. Private domestic demand is expected to remain resilient even as public sector consolidates while providing support for government initiatives aimed to benefit people at the bottom of the income pyramid. Investment will benefit from focus on public-private-partnership (PPP) projects and improvements in the FX market conditions but will be somewhat offset by cuts in public capital expenditure.
- Inflation is projected to remain within the target band, supported by easing food prices, lagged effects of monetary policy tightening, and exchange rate appreciation relative to last year. However, developments in the Middle East pose an important risk to global fuel prices and the near-term inflationary outlook. Tight policies will help limit the second-round effects on NFNF.
- The current account deficit is projected to stabilize around 4 percent of GDP in 2024, compared to average of 4.8 percent of GDP in 2019–23. Relative to 2023, a moderate recovery in goods imports, higher external interest payments, and a deterioration in the services balance are expected to be offset by growth in goods exports and diaspora remittances. FX reserves will remain adequate.

- Over the medium term, growth is expected to average 5 percent under the program baseline. The private sector is expected to be the main growth driver in the medium term, benefitting from envisaged growth-friendly fiscal consolidation and measures aimed at improving competitiveness, business environment, inclusivity, and market efficiency. Inflation is projected around the mid-point of the target band, and the current account deficit will stabilize at around 4 percent of GDP.

III. PROGRAM PERFORMANCE AND POLICIES

A. Program Objectives

10. Our primary policy objective is to maintain macroeconomic stability through robust and inclusive growth. Our economic policy plans—supported by the EFF/ECF arrangements—place a special focus on (i) promoting sound macroeconomic management through prudent debt policies and reforms to bolster the trajectory of the tax-to-GDP ratio as well as to improve the efficiency of public spending and support competitiveness, and (ii) fostering good governance in public resource management. The key policy priorities for: *Fiscal policy*. Undertake growth-friendly fiscal consolidation to preserve debt sustainability by bolstering revenue primarily through broadening of the domestic tax base and improving tax compliance, while promoting equity and progressivity in the tax regime, curtailing overall spending, and protecting high-impact social and investment expenditure;

- *Public financial management*. Decisively increase the efficiency and transparency of public spending, including by SOEs, to eliminate waste and achieve better value for money;
- *Governance*. Enhance institutional oversight arrangements, strengthen preventive frameworks to improve accountability and foster good governance, and boost transparency;
- *Monetary policy*. Continued proactive approach to Kenya's inflation objective in recognition of needed external adjustments and near-term uncertainties on movements in global commodity prices and interest rates, while strengthening the monetary policy framework further by refining policy operations to keep interbank overnight rate close to the policy rate and supporting vibrant interbank markets, including by enhancing operations and policies to ensure efficient functioning of the foreign exchange market;
- *Access to affordable finance*. Transform the banking sector to one that works "*for and with Kenyans"* and is anchored on pillars of customer centricity, risk-based credit pricing, transparency, and ethical banking;
- *Financial stability*. Safeguard financial stability by enhancing prudential regulation and supervision, strengthening operational tools in the context of increasing financial sector complexity and risks and ensuring smooth functioning of financial markets;
- *Structural reforms*. Deepen structural reforms to improve the business environment, governance and boost investment, employment creation, gender inclusivity, exports, addressing climate challenges, and potential growth; and

- *Statistics*. Improve data quality in line with international best practices to support economic policymaking, transparency, and accountability.

B. Program Performance

11. Most end-December 2023 quantitative performance criteria were met, but the end-June 2024 fiscal targets were missed, while only one out of the ten January–June 2024 structural benchmarks was met.

- *Quantitative performance criteria (QPCs, Table 1):* The end-December 2023 targets on the fiscal primary balance, net international reserves, no new domestic debt guarantees, and present value (PV) of contracting or guaranteeing of new external debt were met but the one on tax revenues fell short. In anticipation of the tax shortfalls as of end-December 2023 and its potential impact for the second half of the fiscal year, we had submitted additional tax measures to Parliament in mid-December 2023. However, passage of those additional measures was not accomplished due to concerns over renewed social unrest from further increases in cost of living and possible legal challenges, as witnessed earlier in the fiscal year. Amid a further widening of the tax shortfall in the second half of FY2023/24, we had included these and other new tax measures in the 2024 Finance Bill to generate a primary surplus of 2.7 percent of GDP (net of a planned allocation under National Treasury earmarked for the clearance of verified pending bills, ¶14) in FY2024/25, against 1.7 percent of GDP envisaged in the sixth EFF/ECF reviews. While Parliament passed the Finance Bill with some modifications after the Constitutionally-mandated public participation process, the President withdrew it following nationwide public protests against the new tax measures. To partly offset the impact of the revenues foregone, a Supplementary FY2024/25 Budget with additional spending rationalization and nontax measures was passed in July. We have not accumulated any new external payments arrears since the sixth EFF/ECF reviews. For the end-June 2024 test date, we met the QPCs except for the ones on the fiscal targets (primary balance and tax revenues). However, spending rationalization and additional nontax revenue measures under the Supplementary FY2024/25 Budget, and our commitment to protecting the FY2024/25 fiscal deficit in the face of spending pressures and any unfavorable ruling on the constitutionality of the 2023 Finance Act should help address the impact from the fiscal slippage in FY2023/24 and withdrawal of the 2024 Finance Bill. This is complemented by our commitment to further revenue-based fiscal consolidation over the medium term to address Kenya's debt vulnerabilities (a key objective our policies supported by the EFF/ECF program).
- *Indicative targets (ITs, Table 1):* The end-December 2023 and end-June 2024 indicative targets on priority social expenditure were met but the ones on exchequer requests outstanding for 90 days or more were not met amid challenges in domestic resource mobilization. The one on no accumulation of new domestic arrears was not met for end-December 2023, but was met for end-June 2024.
- *Monetary policy consultation clause (MPCC, Table 1):* The MPCC was met for both end-December 2023 and end-June 2024 as the three-month averages of inflation

(6.8 percent for end-December 2023 and 4.9 percent for end-June 2024) were inside the inflation target band of 2.5–7.5 percent.

- *Structural benchmarks (SBs, Table 2):* We met one out of the ten SBs scheduled for January-June 2024. In recent months we made further progress on implementing some of the pending SBs but would still need additional time on two of the SBs.
  - *End-January 2024 SB.* Cabinet approval and publication of an updated inventory and a new classification for state corporations (SCs) was not met due to extended stakeholder consultation to ensure long-term sustainability of the measures. In May, we gazetted an Executive Order related to the revised guidelines on terms and conditions of service for Board members and staff of SCs. The revised guideline contained a new classification of SCs (see ¶26 below), but it did not specify that such classification applied to other purposes across the government. We published the guidelines on July 10.
  - *End-February 2024 SBs.* The SB on the Steering Committee to oversee implementation of the Medium-Term Revenue Strategy (MTRS) was met. On February 9, we formed the Steering Committee, headed by the Cabinet Secretary for National Treasury (NT) with members comprising the Attorney General, the Principal Secretary (PS) of NT, PS of State Department of Economic Planning, and the Commissioner General of Kenya Revenue Authority. The SBs on a report outlining procedures and rules for clearance of verified pending bills and other government arrears was delayed due to the long process of verification of submitted claims that had not been anticipated. A strategy on clearing the verified claims was approved by the Cabinet on June 11 and was published in July.
  - *End-March 2024 SBs.* The SB on submission of the second Supplementary Budget for FY2023/24 was not met. Its submission was delayed until April 30 since a larger-than-expected shortfall in tax revenues as of March required greater inter-agency coordination in coming up with a plan that minimized the worsening of the primary fiscal balance for the fiscal year. The President assented to the second Supplementary Budget on June 10, 2024. Implementation of the SB on performing and publishing an assessment of the governance structure of the Petroleum Development Fund was delayed due to inter-agency coordination issues and was published in early August.
  - *End-April 2024 SBs.* The FY2024/25 Budget proposal and the 2024 Finance Bill were submitted to Parliament by end-April, as required under the Public Finance Management Act. But the SB was not met as several proposals needed further amendments ahead of the public consultation to strengthen the measures, especially on some of the proposed taxes. In the end, the 2024 Finance Bill was withdrawn by the President. The SB on Cabinet approval of strategy options for restructuring Kenya Airways (KQ) could not be implemented on time due to a willingness to consider proposals from potential strategic investors and allowing KQ additional time to address the pending matters with their own restructuring plan. We are requesting to reschedule this SB to end-November 2024.
  - *End-May 2024 SB.* Due to longer-than-expected time taken in legal drafting, we now anticipate submitting to Parliament by no later than end-November 2024 the legal amendments to anchor the new Ownership Policy for commercial SCs and other SOE

Blueprint measures in the law. As a result, we are requesting to reschedule this SB to end-November 2024. We appreciate the IMF technical assistance (TA) on this matter.

  - *End-June 2024 SB*. In August 2024, we finalized the financial evaluation of seventy SCs based on their FY2022/23 audited accounts. The delay in completing the evaluation was due to non-availability of the FY2022/23 audited accounts for all these SCs ahead of the June deadline. The evaluation report contains detail financial analysis and provides specific short-term to long-term recommendations and measures for each SC, which will help inform the end-October SB on submitting to Parliament a report on comprehensive assessment of the NT's continued involvement in, investment in, or funding of SCs and government-linked companies. On the financial evaluation, we have benefitted from IMF TA. Consistent with the end-June 2024 SB, we commit to sending a report to the Fiscal Risk Committee by end-October 2024. We are on-track to complete the end-October 2024 SB in time.

- *Resilience and Sustainability Facility (RSF) arrangement.* We have implemented two reform measures (RMs) since the previous review, viz. RM2 (fiscal sustainability analysis under different climate change scenarios), and RM4 (developing and seeking stakeholder consultation on a draft green finance taxonomy). As communicated at the first RSF review, implementation of RM3 (carbon pricing) will require additional time to build capacity for its development. We have requested IMF TA for this purpose. Progress on other RMs is being made.

C. Fiscal Policy

12. Our fiscal policy path recognizes the urgency to resume fiscal consolidation efforts to reduce debt vulnerabilities amid significant domestic challenges and climate shocks. Building on the positive investor sentiment and shilling appreciation since the Eurobond issuance earlier in the year that eased liquidity pressures, we will remain focused on steadfast fiscal consolidation to put debt on a firmly downward path and rebuild fiscal buffers. Successive external and climate shocks underscore the importance of such buffers, with recent floodings adding to our population's needs and cost of living pressures. At the same time, renewed social unrest triggered by tax measures proposed in the 2024 Finance Bill that eventually led to its withdrawal underscores the importance of rebuilding social cohesion needed to deliver a credible fiscal consolidation strategy. In an environment of elevated youth unemployment levels and demands for a more equitable fiscal adjustment, our policies aim to strike an appropriate balance (that is, addressing rising debt and social discontent) while recognizing the tradeoffs exacted by Kenya's limited fiscal space and continued financing constraints. Accordingly, while implementing spending cuts in the near term to narrow the gap resulting from the withdrawal of the 2024 Finance Bill, the focus of our fiscal policy strategy remains on steadily reducing the deficit by broadening the revenue base consistent with our Medium-Term Revenue Strategy (MTRS) and containing nonpriority expenditures while enhancing social safety nets, including with the support of our development partners.

13. The Supplementary FY2024/25 Budget (Supplementary) envisages significant expenditure cuts relative to the FY2024/25 Budget as a first step to bring our fiscal path back

on track. The Supplementary with significant spending compression provides a limited window to garner the social and political support for a credible revenue-led medium-term fiscal adjustment strategy (¶17). It targets an overall fiscal deficit and a primary surplus of 4.3 and 1.3 percent of GDP, respectively (vs. 3.5 and 1.7 percent of GDP in the sixth EFF/ECF reviews). At 1.2 percent of GDP, the fiscal effort—measured as the change in the primary balance—is 0.2 percent of GDP higher than what was programmed at the sixth EFF/ECF reviews, reflecting our commitment to reach our debt anchor by 2028. This effort is, however, lower than what was envisaged in the FY2024/25 Budget, reflecting the impact of the withdrawal of the 2024 Finance Bill. Specifically:

- On the revenue side, with the package of tax measures totaling 1.8 percent of GDP withdrawn, we have decided to: (i) extend the tax amnesty on arrears until end-June 2025, to be legislated through an amendment to the Tax Procedures Act later this year and expected to yield 0.2 percentage points (ppts) of GDP; (ii) increase the road maintenance fuel levy from Ksh.18 to Ksh.25 per liter (0.2 ppts); and (iii) merge or dissolve 47 state corporations with overlapping or redundant mandates (0.1 ppts). The latter forms part of ongoing SOE reforms aimed at (i) improving their operational and financial performance through cost rationalization and ongoing review of pricing policies, and (ii) reducing dependence on the Exchequer, which coupled with updated dividend policies, are expected to permanently increase SOE dividends by 0.1 percent of GDP. Finally, we are redoubling efforts to deploy innovative solutions—leveraging technology and digitalization, to enhance tax compliance—and are confident that these could generate significant yields.
- On the expenditure side, the Supplementary envisaged a primary spending adjustment of 1.3 percent of GDP relative to FY2023/24, more than doubling what was envisaged in the FY2024/25 Budget. The latter was based on rationalizing slow-moving capital projects, wage bill control, lower transfers to state corporations resulting from SOE reforms, and savings in intermediate consumption from significant cuts in travel, hospitality, training, and other expenses, as well as in the medical insurance allocation—as expenses are shifted to the new Social Health Insurance fund. In response to the withdrawal of the 2024 Finance Bill, we have taken additional measures to close about half of the resulting financing gap. This includes: (i) additional wage bill savings (0.1 ppts) from a reversal of planned wage increases, a temporary hiring freeze, payroll audit, and other measures to reduce the government's footprint (e.g., suspension to fill certain vacancies, reduction in the number of advisors); (ii) further cuts to intermediate consumption (0.2 ppts); and (iii) further rationalization of domestically-financed development spending (0.6 ppts).

14. We are strongly committed to preserving the primary balance target in the face of sizeable spending pressures. With pressures related to collective bargaining agreements and funding of education programs, estimated at 0.4 percent of GDP, already materializing since the enactment of the Supplementary, we plan to enact a package of revenue measures by December to offset these pressures. To this end, we have submitted to Parliament a draft Tax Laws Amendment Bill that will introduce several measures drawn from the MTRS that should target to: (i) rationalizing tax expenditures related to final consumer goods, thus protecting the revenue base; (ii) strengthening tax administration and enhance tax compliance, including extension of the tax

amnesty on penalties and interest to enable taxpayers to clean their ledgers; (iii) introduction of innovative digital solutions to help broaden the tax bases that incorporate Virtual Electronic Tax Registers (ETRs), advanced analytics, Application Programming Interface (API) management, real time collection of tax as well as simplified registration, filing, and payment processes; (iv) realigning the excise rate for selected goods and services towards optimal levels that are supportive of businesses and livelihoods; and (iv) reviewing the scope of specific levies and duties on imports (i.e., railway development levy, import declaration fee, and export promotion and investment levy) with a view to promoting ease of doing business and investment. Together with the extension of the tax amnesty, we expect this to yield about 0.9 percent of GDP on an annual basis. If these measures enter into force from December, as envisaged, we expect the yields to be sufficient to offset the aforementioned spending pressures.

15. We also remain committed to clearing any spending carryover from FY2023/24 and preventing the accumulation of arrears. FY2023/24 ended with a sizeable spending carryover of about 1.3 percent of GDP (¶5). We remain committed that such carryovers do not undermine achievement of our fiscal targets for the current and next fiscal years. Accordingly, the Supplementary FY2024/25 Budget includes an appropriation of about 0.4 percent of GDP for the clearance of part of the FY2023/24 carryovers. In parallel, we have instructed Ministries, Departments, and Agencies (MDAs) to carefully prioritize execution of FY2024/25 commitments with a view to clear the carryover by end-December 2024, consistent with the "first charge" principle enshrined in our Public Finance Management Regulations, 2015, Section 42(a) and the National Treasury Implementation Guidelines issued at the beginning of the execution of budget each year. While aiming to avoid spending overruns through strict spending control and reallocations within existing envelopes, thus preventing any resort to Article 223 of the Constitution, we will submit to Parliament a second Supplementary FY2024/25 Budget to reflect any spending adjustment needed to meet spending pressures and clear carryovers while respecting the programmed primary balance and revenue targets ***(proposed new SB for end-January 2025)*.** We are committed to accelerate the legislative process with a view to submit the second Supplementary FY2024/25 Budget to Parliament well-before end-January 2025. To prevent the accumulation of arrears in the current fiscal year and going forward, we will: (i) prioritize clearance of exchequer requests submitted in our payment system (IFIMIS) prior to end-June 2024; and (ii) take the necessary steps to ensure efficient operation of the government securities market (¶28) to support liquidity, consistent with recommendations from recent IMF TA.

16. The clearance of pending bills and other government arrears remains a priority. In September 2023, the Cabinet established a Pending Bills Verification Committee, effective until September 2024, to scrutinize the existing national government arrears accumulated between end-June 2005 and end-June 2022. The Committee is tasked to verify the stock of pending bills, provide recommendations for their settlement (e.g., payment, cancellation, legal actions for false or fraudulent claims), and propose measures to avoid future accumulation of arrears. The committee has received claims of Ksh.571.6 billion from central government entities and is collecting potential unregistered claims from the public. An interim report with recommendations for settlement of verified unpaid bills was submitted to the NT on April 22, 2024. These recommendations informed

the NT in developing a comprehensive, timebound strategy which was approved by the Cabinet on June 11 with (i) measures to address the shortcomings in the PFM systems that led to accumulation of pending bills and other arrears, including the definition of expenditure arrears; (ii) criteria for clearing validated arrears over five years; and (iii) a schedule and principles for settlement of verified pending bills and other government arrears.

17. Going forward, we remain committed to our revenue-led fiscal adjustment strategy through renewed efforts to widen the tax base and improve compliance, and to streamline recurrent spending. To achieve this, we are actively engaging a broad spectrum of stakeholders that will inform our tax reforms to ensure that they are socially and politically acceptable while preserving the objective of making the tax regime more efficient and equitable. Accordingly, we are committed to introduce measures that widen the tax base, carefully assessing and where possible offsetting unintended distributional effects to ensure equity and progressivity. Guided by the MTRS implementation matrix, the MTRS Steering Committee will assess and adopt a comprehensive reform plan for the major taxes (PIT, CIT, and VAT), with a view to prepare the necessary legislative changes for the FY2025/26 Budget ***(proposed new SB for end-February 2025)*****.** This will align with the budget calendar that requires submission of the Budget Policy Statement to cabinet by February 15, 2025. The plan will be aligned with the existing roadmaps (i.e., Bottom-Up Economic Transformation Agenda 2022–27 and Vision 2030), be informed by economic impact assessments of the policy options (including on equity), and benefit from stakeholder consultations. We will also continue to contain recurrent expenditure-to-GDP ratio by limiting the growth in the wage bill and transfers to public companies and identifying further savings of some 0.4 percent of GDP, while protecting priority social spending. To this end, we plan to extend the current hiring freeze (on a net basis) to FY2025/26, roll out the unified payroll system, and streamline allowances (¶24), implement e-procurement (¶23), and continue the restructuring and reform of state corporations (Section E). This should help achieve our deficit path, while creating space to ramp up development spending to reach 5 percent of GDP over the medium term.

18. Uncertainties associated with global and domestic shocks entail high risks to our fiscal program and reinforce the need for contingency planning. The uncertainty is particularly pronounced for government revenues, as rapid changes arising from global, regional, domestic, and climate shocks—including from further ramifications of the war in Ukraine, spillovers from the conflict in Gaza, floodings after last year's historic droughts, and recent nation-wide protests against further tax increases—could depress tax receipts and further add to spending pressures. To mitigate these risks, concerted efforts are underway to garner the necessary social and political support to move forward with tax and nontax reforms. Furthermore, we are committed to swiftly address any adverse ruling by the Supreme Court on the constitutionality of the 2023 Finance Act. Specifically, should any tax policy measures in the 2023 Finance Act be declared null and void, we stand ready to reintroduce such measures on a priority basis and in compliance with the guidance of the Supreme Court.

19. We attach high priority to the management of fiscal risks. The established Fiscal Risk Committee—within the National Treasury—will help monitor and assess fiscal risks, including risks

related to contingent liabilities from public-private partnerships. The inaugural meeting of the Fiscal Risk Committee took place on December 2022. The Committee will continue to hold quarterly meetings consistent with its approved meeting calendar and the next meeting, October 2024, will analyze the materialized fiscal risks during FY2023/24, the findings of the financial evaluation of seventy SCs, and prepare an internal report with quantified fiscal risks and mitigation measures for ensuing periods. We have expanded the fiscal risk statement for FY2024/25, including those related to climate change (¶60).

D. Fiscal Structural Reforms

20. We have started the implementation of administrative measures of our first MTRS developed with assistance from the IMF. We submitted the MTRS to Parliament together with the 2024 Budget Policy Statement in February 2024, and the measures envisaged under the first year of its implementation were included in the withdrawn 2024 Finance Bill. To strengthen the MTRS governance and process, we established a Steering Committee ***(end-February 2024 SB)*** at the ministerial level to enhance the political commitment, produce quarterly progress reports, and speedily resolve emerging issues on implementation. Furthermore, to advance implementation of the MTRS, the Steering Committee will adopt a comprehensive PIT, CIT, and VAT reform plan with a view to prepare the necessary legislative changes for the FY2025/26 budget **(*proposed new SB for end-February 2025*).**

21. Revenue administration reforms at the Kenya Revenue Authority (KRA)—aimed at improving compliance and taxpayer services—will continue to play a major role in our fiscal strategy. Key objectives include:

- *Developing and implementing risk-based compliance strategies.* Compliance risk management capacity has improved significantly over recent years—including by restructuring our Compliance Risk Management Committee in November 2022. KRA monitors and evaluates the compliance improvement strategies and reports the status of implementation to the committee on quarterly basis. Based on 2019 IMF VAT Gap study, we have implemented the risk-differential framework (RDF) and risk profiling tool in ten regions covering four identified high risks sectors (construction, wholesale & retail, manufacturing, transport & storage). While the RDF and risk profiling tool were fully automated and deployed in June 2024. The risk profiles are uploaded on the KRA Insight platform for internal sharing with KRA staff.
- *Strengthening KRA's audit function.* Several actions have been taken to rebuild audit capacity, including to refresh and upgrade staff skills, strengthen feedback loops between the disputes and audit areas, and initiate process changes and capability enhancements to improve quality and establish mechanisms for assessing the impact of the audit function on compliance by end-December 2024. The United States Office of Technical Assistance is working with the KRA to establish structures for operationalization of the Audit Quality Assurance Function. Progress is being made to undertake the following initiatives: (i) training of computer audit specialists and equipping them with advanced MS Excel technique;

(ii) continuous training on computer-aided audit techniques facilitated by the United States Office of Technical Assistance where 10 audit staff have been trained; (iii) continuous training on advanced MS Excel is being facilitated by the Kenya School of Revenue Administration; and (iv) setting up of the Audit Quality Review Team is in progress and already the structure has been developed and is awaiting approval and resourcing.

- *Strengthening data analytics to support compliance risk management (CRM)*. We are making good progress in enhancing the use of data to improve taxpayer compliance. The recently approved data management strategy aims to increase the usage of data and analytics for compliance risk management through: (i) integration with key third party sources for revenue assurance and risk management—integration with telecommunication companies has commenced and will be finalized by June 2025; as of September 2024, 89 percent of betting and gaming firms had been onboarded for real time data acquisition, 60 out of 400 digital credit providers had been onboarded, and the piloting of integration between KRA and one telecommunication's system was completed. The expansion of scope to the other two telecommunication companies was delayed due to the change in approach to have the integration done through the telecommunications regulator (Communications Authority), which has postponed the achievement of this commitment from July 2024 to June 2025 (ii) implementation of advanced analytics and expert models of fraud detection and risk management; (iii) reconciliation and migration of taxpayer ledgers from the legacy system was completed on June 27, 2024. We have experienced some delays in developing credible and reliable taxpayer register of the Large Taxpayer Office (LTO), Medium Taxpayer Office (MTO), and deregistered companies' data due to objections by some taxpayers to deregister their companies or obligations that are in-active. The taxpayer registers of the LTO, MTO and deregistered companies were developed by end-June 2024. Cleaning and validation of data in the Legacy system was completed and mass migration to iTax system was done by June 27, 2024. We will closely monitor the taxpayer registers, ensuring it is continuously updated.
- *Managing exemptions*. Building on our efforts to improve tax enforcement and compliance for exemptions (VAT, import duty, import declaration fee, railway development levy, excise duty), we have completed verification of 75 projects out of 87 that are tracked by Customs. We monitor ongoing projects and will broaden VAT exemption verification at customs to new areas, including those administered under the East African Community Customs Management Act, by end-December 2024. This commitment was planned to be achieved in March 2024, but it requires more time due to the increased number of tracked projects.
- *Managing tax arrears*. We granted a tax amnesty for interest and penalties, implemented from September 1, 2023, to June 30, 2024. The amnesty offered (i) writing off the outstanding penalties and interest for taxpayers with penalties and interest for the unpaid principal tax accrued up to December 31, 2022, and (ii) a payment plan to settle the outstanding principal tax. The amnesty did not include interest and penalties in tax avoidance cases and tax debt accrued after December 31, 2022. To improve the collection of tax arrears after the amnesty, the KRA will publish a strategy for dealing with tax arrears ***(proposed new SB for end-November 2024).*** The strategy will outline new collection

approaches, management of debt collection on a national basis rather than a tax office basis, application of audit-assessed debt, electronic payment of debt, gathering of information on how taxpayers respond across the debt value chain, and better monitoring of uncollectible debt based on the age profile. Further, we will extend the tax amnesty on arrears until end-June 2025.

- *Enhancing transparency*. KRA will publish indicators and information on its performance related to meeting taxpayer charter standards, efforts to improve integrity, assuring the compliance of large businesses and wealthy citizens, and dealing with egregious behaviors (such as fraud) by end-January 2025.

22. Avoiding delays in payment of tax refund claims. KRA has established dedicated teams at Regional Audit Centers for timely tax refund case audits. KRA has also established dedicated teams for continuous reconciliation of taxpayer ledgers prior to taxpayer's lodgment of claims given that debt validation after claim lodgment causes delays in refund processing. In March 2024, KRA implemented the 2023 Finance Act amendments where, if the Commissioner fails to pay approved refund claims within 6 months, the taxpayer can utilize the refunds claims to offset their outstanding tax debt or future tax liabilities. As of September 30, 2024, KRA had an outstanding VAT refunds claims (verified and unpaid) of Ksh.15.4 billion and had issued Ksh.12.5 billion VAT Refunds Adjustments Vouchers (RAVs) to taxpayers to offset their outstanding tax liabilities (out of which Ksh.6.5 billion RAVs have not been utilized). Moreover, KRA, in December 2023, developed performance contracts aimed at reducing the claim processing time to 60 days, with a medium-term goal of achieving a 30-day processing time. The short-term goal has been achieved since the claim processing time currently takes less than 60 days. KRA has put on hold the system integration (iTax and iCMS) for real-time confirmation of exports to June 2025, previously targeted for June 2024, given that exports are key driver of refunds. Already the integration for PIN validation and confirmation of imports have been completed. The delay was caused by legal hurdles of dropping the Finance Bill 2024 that had sought to amend Section 12 of the Value Added Tax Act to facilitate the export integration. To achieve an integrated system, we will finalize the procurement and implementation plan of the new system by December 2027. Being a comprehensive tax platform that would take time to procure and deploy, we have extended our timeline target from December 2024 to December 2027. The National Treasury will prioritize allocation and transfer sufficient funds to KRA to meet tax refunds needs in accordance with the Government Strategy on Verification and Clearance of Pending Bills.

23. We are working diligently to strengthen our public procurement system. We are in the process of acquiring an e-Government Procurement (e-GP) System that will be end-to-end where all public procurement and assets disposal transactions are undertaken online and are fully compliant with the Public Procurement and Asset Disposal Act (PPADA) of 2015 and its attendant Regulations 2020. The developed e-GP system will be interfaced with our Integrated Financial Management Information System (IFMIS) to process payments of contracted suppliers. We had encountered delays in the roll-out of some of the e-GP system modules planned for roll-out in July 2024. As a result, these modules had not been delivered by the service provider. The delays were occasioned by the consultative process with supply chain practitioners and iterative process of preparing and

incorporating feedback during the system development. We have since rolled out the pilot new e-GP system in twelve (12) MDAs from July 2024. We shall thereafter roll-out the entire e-GP system to all the MDAs in July 2025. Toward this end, we have set aside sufficient funds, especially in the area of capacity building of the system users in procuring entities and within business community. In the meantime, we have updated the IFMIS, procuring entities will continue using the IFMIS e-Procurement module until the new e-GP system is fully rolled out to allow for seamless transition.

24. We expect significant savings from controlling the government wage bill. We continue pursuing our objective of reducing the ratio of the government wage bill as share of tax revenue with a view to free much-needed resources for priority social and development spending. To this end, we implemented a wage freeze for FY2021/22 and FY2022/23, and we have eliminated and streamlined a number of allowances. In July 2024, and because of the emerging fiscal constraints and budget cuts emanating from the withdrawal of the 2024 Finance Bill, the Salaries and Remuneration Commission (SRC) froze the upward review of salaries for all state officers. In addition, SRC deferred the implementation of the scheduled annual salary review for all other public officers in FY2024/25 until further notice, contingent upon the availability of funding. In view of pressures to implement collective bargaining agreements with trade unions, the SRC decisions have been reversed since, with these pressures to be funded from additional revenue efforts (¶15). Further actions planned in relation to controlling the wage bill include:

- *Harmonize and rationalize the categories, rates, and rules for allowances.* Consistent with the Salaries and Remuneration Commission (SRC) objectives of containing allowances to no more than 40 percent of gross pay overtime, the SRC has implemented changes to the remuneration of state officers, including to link rewards to performance, and to review bonus and allowances requests from public institutions. The SRC plans to substantially reduce the number of allowances (from the current 247) to ensure that these are well targeted and reflect specific job circumstances and skills. Several allowances have ceased to be payable and daily subsistence allowance for local travel have been standardised across the country.
- *Implement a common payroll system linked to IFMIS across MDAs and Counties.* We have rolled the Unified Human Resource (UHR) system—which will consolidate Human Resource and Payroll data in the Public Service for access through a single warehouse. Since July 2023, the UHR system is linked to Kenya Revenue Authority i-Tax to facilitate filing of PAYE tax element associated with individual employees and total monthly PAYE tax obligation from the State Departments. We will incorporate the other deductions to enable all remittances to be sent to respective entities including Pension Funds and other employees' contributions schemes by December 2024.
- *We intend to roll out the UHR system for the entire Public Service by December 2024.* The roll out of the UHR will be carried out in phases. Phase 1 entails rolling out the system to all MDAs and Counties, which commenced in September 2023. Phase 2 involved the roll out to all State Agencies that have adopted the Unified Payroll Numbering (UPN) System—including to Teachers Service Commission (TSC). The 349,000 teachers under TSC have been issued with UPN. Phase 3 will entail issuing the UPN to all Commissions and Independent

Offices, State Corporations, Public Universities, and Agencies. Training of trainers and users is currently underway but has encountered delays due to logistical challenges and we are now set to fully implement the UHR system by July 2025.

- *Ensuring that Collective Bargaining Agreements consider available resources.* The SRC will progressively review allowances and benefits in the future Collective Bargaining Agreements and align them to the provisions of the Allowances Policy Framework for the Public Service.

25. We continue improving Public Investment Management (PIM) to deliver value for money in public capital expenditure. To this end, we are:

- *Rationalizing existing projects.* Based on a Cabinet decision to thoroughly review 437 stalled or underperforming projects, MDAs conducted physical audits and have submitted their analysis to NT for review and validation. All projects have been reviewed, and NT has commenced consultation with MDAs on projects to be cancelled. Through the Office of the Attorney General and Department of Justice, NT will table a cabinet memo on the final status of all stalled projects, recommending either suspension, continuation, or cancellation by end-December 2024. Furthermore, NT will issue a circular to MDAs to prioritize funding for projects decided for implementation in line with PFM Regulations of 2022 and debt sustainability analysis.
- *Operationalizing the recently developed Public Investment Management Information System (PIMIS) to automate public investment management process*. The PIMIS is being piloted in roads, infrastructure, health, and education sectors. Informed by the piloting phase, the PIMIS will be populated with all ongoing and new projects and covering all other sectors of the government by end-June 2025. Implementation of PIMIS has been delayed to allow time to integrate aspects of public private partnerships (PPP) and climate change in the PIM framework. With the support of IMF, we will update the PIM-PPP framework to enable capturing the PPP projects in PIMIS system by January 2025. The PIM department has expanded with additional staff and has provided capacity development for the trainer of trainers to enhance its project appraisal capacity.

26. Strengthening Public Finance Management (PFM) remains a priority going forward. The Cabinet has approved implementation of a Treasury Single Account and transition from cash to accrual basis of accounting, which will improve cash management and enhance financial and fiscal reporting. Through the PFM reform strategy 2023–28 and findings of the Auditor General Audit Report on supplementary budgets, including under Article 223 of the Constitutions, we intend to strengthen expenditure control and improve the efficiency and effectiveness of public spending by pursuing the following milestones:

- By end-December 2024, NT will submit to Parliament amendments of the PFM Act to reform the framework for in-year revisions to the budget, including by strengthening conditions and introducing rigorous procedures governing additional spending under Article 223 of the Constitution ***(proposed new SB for end-December 2024)*.** We have progressed in enhancing IFMIS by creating a functionality in Hyperion module to capture multi-year commitments.

- With the approval of Cabinet, we have classified state corporations in accordance with GFSM 2014. This exercise involved all stakeholders to ensure the approach was inclusive and the envisaged outcomes would then be sustained in the long run. There are 343 state corporations, of which 79 are commercial government owned enterprises, and 264 are Extra-Budgetary Units. Extra-Budgetary Units are composed of 105 executive agencies, 78 regulatory agencies, 32 public universities, 13 university colleges & postgraduate institutions, 17 tertiary education & training institutions, 4 national referral hospitals, and 15 research institutions.
- By end-December 2024, we will complete a comprehensive review of SCs and submit a report to Cabinet with recommendations to merge, consolidate, dissolve/wind up or transfer back to MDAs. The NT has undertaken a preliminary assessment of 271 SCs to determine their viability, excluding the twenty-three earmarked for privatization. The assessment is intended to provide a basis for policy decision for SC reforms and: (i) reduce pressure for budgetary allocations; (ii) enhance efficiency, ensure they are self-sustaining, and (iii) generate additional revenue for the National Exchequer. We plan to (a) merge 42 SCs identified to be undertaking duplicate of closely related functions to form 20 SCs; (b) 9 SCs to be dissolved and transfer residual functions back to the Ministry/relevant state corporation; (c) divest from 16 SCs whose mandate is outdated or performed by the private sector; and (d) restructure 6 SCs for better performance.
- We intend to strengthen the functions of the Parliamentary Budget Office, including through IMF TA, to assess macro-fiscal forecasts, monitor the debt dynamics, and periodically report—to the National Assembly and public—on achievement of debt anchor. We will adopt a well-defined escape clause and correction mechanism.

27. We are taking decisive steps to ensure that decisions on domestic fuel prices are aligned with budgeted resources. To ringfence the resources budgeted for price stabilization purposes, we (National Treasury and Ministry of Energy and Petroleum), have assessed the governance structure of the Petroleum Development Fund (PDF) and recommended actions to strengthen its management and published a report in early August ***(end-March 2024 SB)*.** In addition, the Auditor General's Office (AG) will conduct and publish a comprehensive audit of the use of funds in the PDF and the fuel pricing mechanism and recommend actions to strengthen the design of triggers for price stabilization decisions with clear parameters that are not only a function of market prices, exchange rate developments, and margins of the oil marketing companies, but also of resources concurrently available in PDF for stabilization purposes (in view of potential shortfall in levy collections under the PDF and development spending funded from it) ***(proposed new SB for end-January 2025)*.** Consistent with our requests for access under the IMF's Resilience and Sustainability Facility (RSF), we are committed to transitioning to low-carbon economy by avoiding fossil fuel subsidies going forward.

28. Implementation of the 2023 Medium-Term Debt Management Strategy (MTDS) will strengthen public debt management. Key components of this strategy are:

- *Reducing domestic refinancing risks*. The ratio of Treasury Bonds to Treasury Bills remains stable at 88:12 in June 2024 indicating the ongoing implementation of government debt strategy aimed at reducing rollover risks in the medium term. The average time to maturity of outstanding Treasury Bonds has declined to 7.5 years as of June 2024 from 8.2 years in December 2023 representing investor preference for shorter tenor securities in the domestic debt market.
- *Primary reliance on concessional external financing*. In financing the FY2023/24 fiscal deficit, we relied primarily on the concessional financing from development partners. We secured World Bank Development Policy Operations lending (US$1.2 billion) as well as the funding under the Performance for Results (US$150 million), and the resources from the Africa Development Bank (€73 million). In-mid February, we successfully issued a 7-year US$1.5 billion Eurobond and used the proceeds to for a partial buyback (US$1.443 billion) of the Eurobond maturing in June 2024. The market offered an opportune moment against the background of improving market sentiment and easing spreads. The issuance has significantly improved investor sentiment, leading to significant foreign inflows into the Infrastructure Bond and exchange rate appreciation. We also contracted a commercial loan (US$506 million) from the Trade Development Bank. We will continue to rely on concessional financing in FY2024/25 and are engaging multilateral and bilateral lenders for financing, including through issuances of sustainability-linked and samurai bonds. We would consider no concessional borrowing only if the market conditions improve significantly and we will remain within the borrowing limits under the program that safeguards debt sustainability.
- *Strengthening the legal framework for PFM*.
    - The new amended 2012 PFM Act has replaced the nominal debt limit of Ksh.10 trillion with a debt anchor at 55 percent of GDP in present value (PV), with an allowance of ±5 percentage points. The Cabinet Secretary is required to submit to Parliament a written explanation in instances where the debt anchor has been breached. Notably, it is expected that the new debt threshold will serve as a signal to the financial markets.
    - For new regulations on an operational framework for public debt management, originally planned to be completed by end-December 2023, we will form a taskforce of experts from the relevant stakeholder institutions, and based on the recommendations of the task force, propose necessary adjustments to the PFM regulations by end-March 2025 on an operational framework for achieving the debt anchor. The regulations will help clarify responsibilities relating to debt management, independent monitoring, and transparency.
- We are committed to broadening the reporting of SCs' nonguaranteed debts (excluding debt from government which is already captured in existing metrics).
    - In the Public Debt Management Report (PDMR) of the FY2022/23, we reported debt information provided by various SCs and the debt outstanding as at end June 2023. Twenty-five (25) out of 260 SCs had nonguaranteed debt amounting to Ksh.111,805 million (0.8 percent GDP).
    - As a reform initiative, the Government continues to expand reporting on public debt by including nonguaranteed debt held by SCs to enhance accountability and transparency in

debt management. The Government is in the process of implementing a digital platform, Government Investment Management Information System (GIMIS), to digitize and ease the collection of these critical public finance statistics. Over the medium-term, the coverage and reporting of SCs' outstanding debt is expected to improve significantly.

- *Reforms to deepen the domestic debt securities market*:
  - We introduced automation of processes via the deployment of the new Central Securities Depository System (CSD). Introduction of the new CSD to transact directly in the primary and secondary markets will also enable the launch of an active horizontal repo market, increasing market liquidity.
  - We will further enhance the market infrastructure through policy support to market participants to operationalize an over-the-counter automated exchange to compliment the broker intermediated Nairobi Securities Exchange. The aim of the exchange will be to promote trading transparency and settlement efficiency and attract more capital in the economy eventually leading to reduction of yields and cost of new public debt issue. later in the year.

29. Public Private Partnerships (PPPs). We have approved 39 PPP projects for development, with an estimated cost of US$13 billion (11 percent of 2024 GDP) for 36 of these projects. However, only Ksh.136 billion (1 percent of GDP) is contracted so far, with pipeline projects in different stages of development. We will carefully evaluate cost and risks associated with PPPs. In this regard, we will introduce legal provisions to limit the total stock of PPPs and ensure that their related fiscal costs and contingent liabilities are accounted for. While the NT has prepared draft regulations for the PPP projects, we have requested IMF TA to develop a joint PIPM-PPP Framework. With the support of the IMF, we will review and update the PIM and PPP laws and related regulations with aim harmonize them and address the bottlenecks of the PIM Information System. The Draft PIM-PPP framework has been developed.

30. The PPP Directorate will continue to strengthen its reporting on risks. To this end, we will launch a new online portal with all active PPP projects and summaries of all PPP contracts as well as the contracts themselves, excluding confidential or protected information by August 2024. In line with the reporting requirements under section 88 of the PPP Act 2021, the PPP Directorate submitted the second Annual Report on the State of Public Private Partnerships in Kenya for FY2022/23 to Parliament. The report includes Project Pipelines, Fiscal Commitments, and Contingent Liabilities for PPP Projects.

31. Pension reform. To ensure sustainability of the public service pension system, we introduced, on January 1, 2021, a funded contributory pension scheme for public sector employees (Public Service Superannuation Scheme, PSSS). To sustain and strengthen the pension reforms, we will monitor and completely separate and delink the governance of the PSSS from that of the noncontributory scheme. Furthermore, we will revamp the public service pension administration through digitization and re-engineering of the pension management system, expected to be completed by December 2024. Digitization will streamline processes, improve accuracy, and facilitate timely pensions payments. This also enable better monitoring and management of

pension-related matters while re-engineering will complement the digitization by availing an end-to-end Enterprise Resource Planning (ERP) solution that takes advantage of the modern IT technologies. To ensure that the pension scheme remains sustainable and that beneficiaries receive their entitled benefits, we will conduct an actuarial valuation of the future obligations of the noncontributory defined benefits pension scheme by December 2024.

E. State-Owned Enterprises

32. The Kenya Kwanza administration has identified its policy priorities for the state corporations (SCs). The new policy priorities of the government include a more accelerated privatization process; more streamlined governance structures with clear roles and responsibilities among the entity stakeholders (Boards, management, employees); more efficient utilization of budgetary resources; better management of fiscal risks; and enhanced accountability. The authorities remain committed to addressing vulnerabilities at the SCs at a least cost to the exchequer to ensure adherence to attainment of the debt anchor (PV of overall debt at 55±5 percent of GDP by 2028) through medium-term fiscal consolidation.

33. We continue to make progress in assessing, monitoring, and addressing vulnerabilities in the SCs, in line with our stated approach. The NT has undertaken an updated financial evaluation for seventy SCs using their FY2022/23 audited accounts to quantify fiscal risks emanating from the SOEs. The outcome will be reported by the NT to the Fiscal Risk Committee by end-October. The assessment will also help inform preparation, submission to Parliament, and publication of a report comprising a comprehensive assessment of the national government's continued involvement or investment in, or funding of, SCs and government-linked companies ***(end-October 2024 SB)***. A preliminary assessment across all SCs has enabled the NT to identify potential sources of additional savings and rationalization of SCs. We will continue to conduct, on a triennial basis, such assessments as mandated by Section 89(3) of the PFM Act.

34. Kenya Power and Lighting Company (KPLC) and Kenya Airways (KQ) reported operational profits for the sixth months ending in December 2023.

- KPLC's performance through end-December 2023 was supported by improvements in operational revenues (31 percent y/y), including from the new base electricity tariffs that became effective from April 2023 and regularization of passthrough of variables charges arising from exchange rate movements and fuel prices. Implementation of the Action Plan, approved by the Cabinet in May 2023, to restore KPLC's medium-term profitability and cover liquidity gaps is ongoing. KPLC's governance structure has been operationalized (approved on November 10, 2023, by KPLC's shareholders) and private shareholders are now included in its Board in line with the company's shareholding structure. Operational efficiency gains have been limited, including due to slower-than-expected progress in reducing commercial, technical, and transmission losses. An adviser has been onboarded to facilitate assessment of assets to be transferred to Kenya Electricity Transmission Co. Ltd. (KETRACO). On settlement of the outstanding Rural Electrification Schemes (RES) operations and maintenance cost, the costs shall be settled once the transmission assets are valued and

transferred to KETRACO. The costs shall be netted off from the on-lent loans issued by Government of Kenya to KPLC. This is in pursuit to the action plans stipulated in the KPLC approved Cabinet memorandum where a government owned enterprise (GOE) is required to undertake activities for other than commercial reasons and/or the mandate for which a GOE was established, such activities or public policy obligations (PPOs) will only be carried out on a separate operational and accounting basis and with contractual arrangements giving the GOE full compensation for the activity through budgetary provisions.

- KQ has announced net profit in its latest six-monthly report ending in June 2024 for first time in over a decade. But its indebtedness remains very high. As of end-December 2023, KQ had total outstanding liabilities of Ksh.206.8 billion, including outstanding claims on KQ by the government on account of its past and ongoing support, of which Ksh.171.4 billion was long-term liabilities. Short-term liabilities amounted to Ksh.35.4 billion. KQ's externally guaranteed debt Ksh.58 billion was novated in 2023, and the government is now servicing that debt. In August, government guarantees amounting to about US$150 million on KQ's FX-denominated debt to local banks were called. The government is currently working on the modalities of addressing the demand as per the terms of the guarantees.
- It is the stated objective of the government that KQ should be weaned off budgetary support. In this context, preparation of proposals for Cabinet approval of strategic options for restructuring KQ is in the process ***(end-April SB)*****.** The government has directed KQ to resolve the pending matters related to its own business restructuring plan, some of which have taken longer than anticipated, including a resolution of productivity and collective bargain agreements with the pilots. In addition, the authorities are evaluating the options for onboarding a strategic equity investor. An external consultant at KQ has been onboarded for this purpose. As a result of these developments, the SB could not be met on time and is now being requested to be rescheduled to end-November 2024 ***(proposed rescheduling of the SB to end-November 2024)*****.**

SOE Governance and Oversight Arrangements:

35. We are prioritizing rationalization of the SC portfolio and remain committed to strengthening SCs' governance and oversight. We will revise our ongoing strategy to align it with the new policy priorities, with the aim of efficiently integrating and sequencing reform measures considering the broader reform agenda for the SCs.

- In May 2024, an Executive Order was gazetted and published on a revised guideline for terms and conditions of service for the Board members and staff of state corporations. The guideline also included classification of SCs into six categories (see ¶26). We published the guidelines on July 10, 2024, but it did not fulfill the end-January SB's requirements that these guidelines would apply for other purposes across the government.
- We continue to upload on the NT website the audited financial statements and annual reports of SCs as we receive them from the Auditor General. By end-September 2024, we uploaded all audited financial statements and annual reports for FY2021/22 (160 SCs) and

those available for FY2022/23 accounts (115 SCs). Going forward, we are committed to ensuring continuous disclosure.

- We have also uploaded the FY2021/22 and FY2022/23 Annual Performance Contracting Evaluation Reports of the SCs. Going forward, we will continue to upload such annual reports.
- Under the Government Investment Management Information System (GIMIS), we have developed a loans module to allow capturing of disbursements and repayments of SC loans data. We remain committed to developing an analytical framework for Financial Evaluation and Risks Analysis and integrating it as an additional module to GIMIS that will facilitate the identification, quantification, monitoring, reporting, and management of fiscal risks stemming from SCs, including guarantees and contingent liabilities. However, completion of the process will require additional time, including with IMF TA support, and will be completed by end-December 2024.
- An Ownership Policy for Government Owned Enterprises (GOEs) was approved by Cabinet and published in November 2023. The policy details a new governance architecture and legal ecosystem to improve performance and transparency, including centralizing ownership and oversight functions in NT, outlining the government's rationale for state ownership, strengthening Boards of Directors' mandate while safeguarding them from political influence and establishing guiding principles for SCs to undertake public service obligations The end-May 2024 SB timeline of submission to the National Assembly of draft GOE Bill 2024—which is the legal framework to anchor the Ownership Policy and other GOE Blueprint measures — has suffered a slippage owing to a longer-than-expected time the legal drafting iteration of the Bill has taken. The public participation process comprising online submission and face-to-face interaction with members of the public lasted until June 14, 2024, subsequent to which the Bill will now be updated and submitted to Cabinet for approval and for onward transmission to the National Assembly by end-November ***(proposed rescheduling of the SB to end-November 2024)***.

36. Government investments regulations. To provide a legal framework for more effective oversight of government investments by NT, we will prepare regulations to, among others, govern budgetary resource allocation to government investments; monitoring the performance of such investments; and management of fiscal risks emanating from those investments. By end-November 2024, the regulations will be submitted to the National Assembly for approval.

37. Privatization Efforts. The new Privatization Act, 2023 was enacted last year to help streamline the privatization processes. In December 2023, privatization processes for eleven entities under the new law were identified for inclusion in the next five-year privatization program. However, its implementation was suspended following a court order that was issued on December 4, 2023. Subsequently, on September 24, 2024, the High Court declared the Act unconstitutional owing to inadequate public participation. We plan to appeal the ruling. In the meantime, the Cabinet approved on February 14 and June 11, 2024, divesture of eleven additional entities, which were part of a group of entities for whom the process of privatization was already ongoing when the new privatization law came into effect or do not fall under the purview of the new law. In total, there are

fifteen entities which form part of the on-going privatization transactions being undertaken by the Privatization Authority and are at various stages of completion. In parallel, the government is also exploring a privatization mechanism where some target companies are consolidated, and a fund set up to manage them. The model of the fund is meant to package both profit-making and loss-making entities hence sharing interest in the unattractive companies in pursuit of the attractive ones by investors. Timeline for a decision on the same is contingent on the outcome of our planned appeal on the September 24 High Court ruling.

F. Monetary Policy

38. Policy objectives. Our primary policy objectives remain to: (i) maintain headline inflation within our target range (5±2.5 percent); (ii) maintain a flexible exchange rate regime; and (iii) further improve the monetary policy framework. A monetary policy consultation clause (MPCC) with a 5 percent ±2.5 percent band helps monitor inflation performance, with a consultation with the IMF Executive Board to be triggered if inflation falls outside the band (TMU ¶24).

39. In August and October, we lowered the policy rate by a total of 100 basis points in line with the objective of maintaining price stability consistent with our inflation target. Headline inflation has decelerated to below the inflation target from 6.9 percent y/y in January to 3.6 percent y/y in September. The decline was driven by a deceleration in food inflation from 7.9 percent y/y in January to 5.1 percent y/y in September. Fuel price inflation (1.1 percent y/y in September) has also decelerated following downward adjustments in fuel pump prices and reduction in the variable component (adjustments for fuel charges and exchange rate movements) of the overall electricity tariff. The nonfood, nonfuel (NFNF) inflation has declined but remained sticky at around 3.5 percent since December 2023.

40. We remain committed to continue adjusting the monetary policy stance decisively as needed, in order to ensure that we keep inflationary expectations well anchored and in line with maintaining external sustainability. With agriculture recovering, the contribution from food prices to headline inflation is expected to decline but pressures from fuel prices are expected to remain in the near term. Overall, we expect inflation to largely remain within the target band but there are risks associated with international oil price shocks. We remain committed to adjusting the monetary policy stance proactively to mitigate the second-round effects—including from global prices, exchange rate adjustments, and risks from any other future shocks—ensuring that inflation expectations are always well anchored. In addition to our inflation objectives, we will ensure that the monetary policy stance and central bank policy operations are mutually consistent at all times with policy package envisaged under the program to support confidence in macroeconomic stability, meeting government's financing needs, and maintaining Kenya's external sustainability. Building on the progress made to date in strengthening the FX market, and following global best practices, we will work toward enhancing our internal strategy for FX reserve build-up and intervention, incorporating the key elements of objectives, governance, accountability, operational and communication and transparency arrangements.

41. We will support a flexible exchange rate system to act as external shock absorber. To address the challenges of pricing and liquidity, the CBK issued the Kenya FX code in March 2023. The code is aligned to best practices adopted in leading jurisdictions and incorporates relevant elements of the Global FX Code. The leading principles include practices on Execution, Governance, and Risk Management and Compliance which foster a robust, fair, open, liquid and appropriately transparent market. This was complemented by concerted efforts to reactivate the interbank FX market. Two foreign exchange inter-dealer brokers are active in the interbank FX market, supporting price discovery. The CBK holds regular engagements with market participants to increase transparency and receive feedback on market development initiatives, which also led to publishing of updates to previous banking circulars on inter-bank FX market conventions. The banks submitted a self-assessment of their current practice against the requirements of the FX code and have also submitted their board approved implementation plans by June 30, 2023. As of end-August 2024, 95 percent of banks had confirmed full compliance with the Kenya FX code, with monitoring for full compliance for the remainder of the banks ongoing. In July 2023, the CBK issued a statement of its own commitment to the Global FX code, in line with global best practice. We have, in close engagement with authorized foreign exchange dealers, enhanced the smooth operation of the wholesale inter-bank market by timely implementation of an electronic matching system and issuance of a related circular on December 11, 2023. The communication withdrew the circular setting the 20-cents indicative bid/offer spread in the interbank market and reaffirmed the market making obligation of banks to create an efficient market clearing exchange rate. The communication also outlined additional updates to the CBK circulars to align with current FX market practices (e.g., minimum lot sizes). As a result, market participants should buy and sell FX with their clients and among themselves at freely negotiated rates and adjust their quotes as necessary for prudent management of their FX risk within prudential limits. These efforts, combined with the recent turnaround in market sentiment and foreign investor inflows, contributed to resolving the dollar shortage, led to a rebound in interbank market volume and an increase in traded lot sizes. Market participants are now providing two-way quotes. A well-functioning FX market supported by mutually consistent monetary, exchange rate, and fiscal policies, are essential to maintain competitiveness, protect FX reserves and ensure continued financial stability.

42. We have continued to push ahead with our monetary policy reform agenda. Since the removal of interest rate caps in late 2019, which had hindered monetary policy effectiveness, we have made further progress in strengthening our monetary policy framework, anchoring on our July 2021 white paper on *"Modernization of the Monetary Policy Framework and Operations"*. The reforms are ongoing and focus on:

- *Refining macroeconomic modeling and forecasting frameworks.* The CBK has continued to strengthen the forecasting framework and information content of MPC surveys in line with the recommendations of the IMF AFRITAC East FPAS scoping mission. The CBK hosted IMF TA missions on Kenya's FPAS, mainly focusing on improvement of the quarterly projection model, refining business surveys, and developing a nowcasting framework. We will continue to review the analytical tools, including the strengthening of the forecast processes.0The new monetary policy implementation framework (an interest rate corridor around the CBR), adopted in August 2023 (corridor at CBR ±250 basis points) and refined in June 2024 by

lowering the width of the corridor (CBR ±150 basis points), to enhance monetary policy transmission, has allowed the interbank rate to better track the CBR than in the past. The corridor is supported by a backup source of liquidity through the Discount Window, interest rate for which is currently set at CBR+300 basis points (revised from CBR+400 basis points set in August 2023). We will continue to refine the approach to converge with global best practices, including enhancing our liquidity forecasting and refining our open market operations framework in consultation with market participants, to ensure predictable and consistent liquidity conditions in the market.

- The DhowCSD system, a centralized securities depository which went live in July 2023, is a versatile market infrastructure that has helped improve monetary policy transmission and implementation and enhance operational efficiency in the domestic debt market, further promoting capital market growth, market deepening, expansion of digital access for broader financial inclusion, and positioning Kenya as the preferred financial hub in the region. The DhowCSD helps manage systemic risk, improve, and automate operations by eliminating paper-based processes via Straight Through Processing (STP) and enhance liquidity distribution by enabling full transfer of collateral for repo transactions, among other features.0To further improve the transmission of monetary policy to bank lending rates, we have completed the review of commercial banks' risk-based loan pricing models and all banks have adopted their risk-based pricing models.
- Continuing to adapt and improve the communication of monetary policy decisions to make them more effective.

G. Financial Sector

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

44. The banking sector remains resilient, although risks are elevated. Helped by our proactive policies, credit to the private sector expanded at a broadly steady pace throughout the pandemic and accelerated with the economic recovery, though it has moderated recently with the tightening of financial conditions. Under the Credit Guarantee Scheme (CGS), launched in December 2020, to expand access to affordable financing to micro-, small, and medium-sized- enterprises, (MSME), total loans extended stood at Ksh.6.3 billion as June 2024. The ratio of gross nonperforming loans (NPLs) to gross loans in the banking sector stood at 16.3 percent in June 2024, compared to 14.5 percent in June 2023. The outstanding restructured loans amount to about 7 percent of gross loans with about 90 percent of the restructured loans performing as per the restructured terms. Credit risk is expected to remain elevated in the short and medium term as the domestic and regional economies recover from recent shocks, and banks are also exposed to

interest rate and FX risks from the rising interest rates. The banking sector's current capital, liquidity and provisioning levels are adequate, and we continue to enforce compliance based on onsite and offsite surveillance reports.

45. We will continue to stress preservation of capital and liquidity buffers, and closely monitor FX exposures, to strengthen the resilience of the financial system. We remain committed to enhanced surveillance while encouraging banks to strengthen their governance frameworks and business models, embark on mergers and acquisitions, and other capital strengthening efforts. While some FX exposures have recently unwound, we will continue the monitoring of FX loans, deposits, and on-and off-balance sheet exposures in the banking system, with a view to, identifying any potential liquidity risks and strengthening resilience and contingency policies should these risks materialize. We continue to strengthen Anti-Money Laundering/ Combating the Financing of Terrorism/ Countering Proliferation Financing (AML/CFT/CPF) framework in the banking sector, to mitigate the impact of the FATF grey listing on the sector. We received IMF TA in June 2023 to develop Internal Liquidity Adequacy Assessment Program (ILAAP) Guidelines. The guidelines we plan to issue for comments by banks by end-October 2024, will include currency differentiated Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as monitoring tools. We have proposed to increase the minimum capital level in a bank to Ksh.10 billion over the medium term, to ensure an adequately capitalized and a less fragmented banking system.

46. We are committed to strengthening our financial stability policy framework. To this end, we have requested an IMF Financial Sector Stability Review (FSSR), to provide a diagnostic review of the key components of the financial sector, including regulation, supervision, safety nets, financial statistics. The FSSR scoping mission took place in May 2024 and the main mission is scheduled for November 2024. Additionally, we requested dedicated TA from the IMF to develop a macroprudential policy strategy covering existing powers and tools. The TA mission took place over June 25-July 2, 2024, and we will work expeditiously to implement its key recommendations.

47. Going forward, we intend to maintain the reform momentum towards realizing our vision outlined in the CBK's Banking Sector Charter. The banking sector remains on track towards realizing the vision outlined in the CBK's Banking Sector Charter of a banking sector that works for and with Kenyans. Our reform agenda remains on track, including:

- *Banking Sector Resilience*. The need to build resilience and exploit emerging opportunities has led to increased consolidations and combinations among several players. Additionally, Kenyan banks have continued to expand regionally through acquisitions, including in the Democratic Republic of Congo, Rwanda, and Tanzania. Further, the microfinance banking sector has been undergoing transformation, with acquisitions that have mobilized additional capital that has enhanced the sustainability of the sector. The CBK will continue with the focus of building a resilient banking sector with strong business models and governance frameworks that will support Kenya's post-pandemic recovery.
- *The Central Bank of Kenya (Amendment) Act, 2021 on Digital Credit Providers (DCPs).* The Central Bank of Kenya (Amendment) Act, 2021, which became effective on December 23,

2021, empowered CBK to license, regulate and supervise digital credit providers (DCPs) to ensure a fair and nondiscriminatory marketplace for access to credit. Subsequently, the CBK Digital Credit Providers Regulations, 2022, were issued and operationalized on March 18, 2022. Accordingly, unregulated DCPs were required to apply for a license from the CBK by September 17, 2022; or cease their operations. As of October 1, 2024, 85 DCPs had been granted licenses.

- *Greening Kenya's Banking Sector.* In October 2021, to contribute towards our Nationally Determined Contribution (NDC), we issued Guidance on Climate-Related Risk Management to help banks better understand and manage climate-related risks, invest in climate-friendly activities, and mobilize finance for climate action. Capacity building workshops for banks' and CBK staff in risk management and compliance were conducted between February and March 2022. At end-June 2022, all banks submitted Climate-Related Risk Management Implementation Plans focusing on strategy and governance, with plans to address climate risk management and disclosure components over the medium term. Banks have submitted quarterly progress reports since end-September 2022. As part of RSF-related reforms (completion date of April 7, 2024 (7th EFF/ECF Reviews), CBK has developed a draft green finance taxonomy adapted to Kenya's updated NDC, that has been circulated for stakeholder consultation (see ¶67).

48. We have continued to strengthen AML/CFT risk-based supervision for financial institutions. Following the separation of our prudential and AML/CFT supervisory functions in 2023, we are focusing on the effective implementation of our AML/CFT risk-based supervision tools and standalone manual and have developed risk-based onsite inspection plans for all reporting institutions for 2024 onwards. To date, we have conducted 30 AML/CFT on-site inspections and are applying enforcement actions to address identified compliance breaches. We have issued several administrative warnings and monetary penalties and are carrying out follow-up actions, while working to develop indicators to assess the effectiveness of our new enforcement policy. To enhance financial institutions' understanding of AML/CFT preventive measures and address our FATF action plan items, we have issued four circulars to date providing guidance on due diligence and beneficial ownership transparency obligations. We are currently developing enhanced guidance on these among other areas and are focusing on related outreach and training activities for CBK staff and reporting entities.

H. Governance

49. Full and effective implementation of the access to information framework will be prioritized as a pillar for enhanced transparency and accountability. The Access to Information Regulations are now in force through lapse of time. Through the Office of the Ombudsman, we will create awareness amongst the public of their right to access information, and of the procedures involved in accessing that information. We will engage in sensitization and training of public officers in terms of the processes and procedures they need to be familiar with in order to meet their new obligations.

50. Moving forward, we will be vigilant in ensuring that MDA's, SCs and Counties are taking effective actions towards comprehensive operationalization of access to information. In this regard, we will develop with an initial focus on strategic areas like debt, budget, tax expenditures, PPPs, and procurement (i) a methodology to monitor implementation progress of access to information at the national and county levels, and (ii) information standards to guide proactive provision of information and processing information requests. Also, recognizing the pressing need for record standardization in the context of our digital agenda, we will renew our commitment to developing Standards for the Digitization and Automation of Records. We will work with county governments to advance legislative actions needed to give full force and effect to the access to information framework.

51. We continue to take measures to increase the availability of beneficial ownership information in public procurement. As of October 2024, 962 out of over 33,000 procuring entities had registered with the Public Procurement Information Portal (PPIP), which held 10,458 awarded contracts with beneficial ownership information disclosed, worth a total of Ksh.213.73 billion. To support this upward trend in disclosure, the PPRA continues to issue letters to noncompliant procuring entities and conduct trainings to further improve their understanding of beneficial ownership disclosure obligations. As the PPRA does not currently hold sanctioning powers for noncompliance, we are undertaking a legal review to identify and propose options for enforcement, including possible administrative sanctions against accounting officers and heads of procurement functions of procuring entities. The compendium of proposed amendments has been shared with the NT in September 2024 for consideration. We are also working on integrating the PPIP with other government platforms, including the e-GP system, which will facilitate the automatic generation of contract award reports, and the BRS e-registry for automatic validation of beneficial ownership information submitted be tenderers.

52. We will prioritize continuous enhancement of our monitoring and data analysis capabilities of procurement-related information, including identification of red flags and corruption-related trends and risks. This will be supported by the development of a central repository of data on public procurement, mandated under the Public Procurement and Asset Disposal Act, 2015 (section 9-1-m), and facilitated by the planned rollout of e-procurement and its integration with the PPIP and other government databases, such as IFMIS (¶23). In addition, the PPRA will coordinate with and provide continuous training to procuring entities, law enforcement agencies and other relevant stakeholders, to facilitate data sharing and develop functionalities tailored to their specific information and analysis needs, including generation of relevant reports.

53. Convinced that ensuring timely action to address audit findings and recommendations is a critical element in the state's accountability framework, we will take steps to enhance follow up and implementation of the Auditor-General's audit findings and recommendations, including from the completed audits of COVID-19 spending. The efficacy of these audits rests largely on sound legal frameworks, efficient institutional arrangements and robust transparency requirements geared towards effective implementation of audit recommendations. To that end, we will explore measures to (i) promote greater coordination and collaboration among state institutions

involved in the overall audit and accountability cycle, including law enforcement agencies (ii) strengthen follow up and implementation systems and consolidate monitoring capabilities and structures, including integrating them with social accountability and participatory frameworks, and (iii) enhance public reporting in this area, including publishing a summary of NT's Internal Auditor-General Department's annual reports. In addition, we will enhance coordination during the Parliamentary review process of audit reports in order to strengthen follow up and implementation of Parliamentary recommendations. To ensure proper implementation, we will provision the above measures into the new PFM Act (paragraph 30).

54. We have finalized the review process to align our asset declarations and conflict of interest legal framework with international standards and best practices. The draft Conflict of Interest Bill was approved by the Senate in May 2024 (with amendments). The National Assembly rejected these amendments in July and the bill was referred to a mediation committee. While we acknowledge the significant delay, we strive to ensure that the Conflict-of-Interest Bill to require high-level officials to (i) file information regarding disclosure of interests (including financial, contractual and corporate) and assets beneficially owned, (ii) online publication of declarations of assets, including assets beneficially owned, and conflict of interest — except confidential data for personal and family safety and privacy reasons (e.g., account numbers, personal identification numbers), and (iii) dissuasive sanctions to prevent noncompliance, including filing of inaccurate information. Going forward, we will work to achieve full automation of asset declarations for all public officials. In addition, the Bill should: (i) include a robust enforcement framework for breaches of implementation of the Conflict-of-Interest legislation, and (ii) ensure that the Ethics and Anti-Corruption Commission (EACC) is granted implementation and enforcement authority.

55. From 2018 to 2023, the EACC achieved significant progress in asset recovery. The EACC's accomplishments include: (i) Recovery of assets, both movable and immovable, valued at roughly Ksh.23.74 billion (US$200 million); (ii) Efforts to forfeit corruptly acquired assets worth about Ksh.40.78 billion (US$350 million), currently in litigation across Kenyan courts; (iii) Completion of 33 investigations into illegally acquired and unexplained wealth in the last fiscal year; (iv) Initiation of 24 civil recovery lawsuits targeting assets worth Ksh.7.78 billion (US$60 million); (v) Asset recovery of approximately Ksh.940 million (US$8 million) through legal and alternative dispute resolution channels. We recognize that the EACC faces challenges in connection with cross-border cases, so we are examining ways in which we can strengthen the Mutual Legal Assistance and broader International Cooperation frameworks within which the EACC operates. We will also consider ways of strengthening the EACC's team to function effectively within the existing MLA and IC frameworks. We have requested a governance diagnostic assessment for Kenya to identify governance weaknesses associated with corruption vulnerabilities of our institutions. We intend to utilize these diagnostics to strengthen our governance and anti-corruption policies and enhance public spending efficiency, boost competitiveness, foster growth, and reduce poverty in an inclusive manner.

56. We are also making progress in strengthening the Judiciary's capacities to efficiently adjudicate corruption-related criminal cases. In October 2022, 127 special magistrates with mixed jurisdiction were appointed to oversee corruption and economic crimes cases at the lower level to

address backlog, and appropriate training remains a top priority. The Anti-corruption and Economic Crimes Division is a specialized court within the High Court that handles corruption-related cases. Delays in court cases are being addressed through the applicable Court Users Committee and Bar Bench, though we recognize that adjournments are a significant challenge. We also acknowledge that more High Court judges need to be appointed for cases in this jurisdiction to be more effectively managed. We are still experiencing considerable shortages in adequate infrastructure (particularly outside of Nairobi) and transcription equipment. Digital equipment is also in very short supply, though, we have been working towards putting in place video conference and filming capabilities in courtrooms.

57. We will provide proper accountability and transparency on the supplementary budget spending by the various MDAs with a view to ensure greater consistency between expenditure plans and outcomes for the year. We facilitated the Auditor-General with the necessary support and access to all the relevant records for the requisitions (demand) and disbursements (supply) to conduct a special audit on the mechanism, efficiency, and effectiveness of the supplementary budgeting, including under Article 223 of the Constitution, to establish trends and potential risks. The audit report was published in December 2023, and its recommendations, including the criteria for approval of requests for additional funding, will be incorporated into the amended draft PFM Act.

58. We are continuing to address AML/CFT deficiencies to strengthen financial integrity through the following measures:

- Kenya is addressing the AML/CFT deficiencies identified in our FATF action plan to strengthen Kenya's AML/CFT regime. The multi-stakeholder group led by the FRC has allocated specific requirements under each action item to complete the action plan ahead of its May 2026 deadline. The action items in the action plan are at various stages of completion, with the first set of action items (parts of Immediate Outcomes 1, 10 & 11) due in January 2025. We are reviewing the CFT regulations to address areas raised in the action plan. We continue to raise awareness on the sectoral risk assessments and the updated the National Risk Assessment, which was published on the FRC's website. We are also continuing to address additional action items, including on the completion of a TF risk assessment and related guidance, development of a legal framework for virtual asset service providers, and deployment of tools to fast-track ML/TF investigations. To strengthen AML/CFT risk-based supervision of designated nonfinancial businesses and professions (DNFBPs), we are continuing off- and on-site examinations of high-risk sectors. FRC, in coordination with the supervisors of casinos and the real estate sector, is following up on remedial actions to fully address instances of non-compliances found during the onsite inspections. FRC is working closely with sectoral supervisors to strengthen their capacities, including through training and joint AML/CFT examinations, and plan to begin joint examinations. To prepare sectoral supervisors to conduct inspections independently, we have customized our risk-based supervision manual to cover all DNFBP sectors and jointly developed supervisory and risk-profiling tools for Dealers in Precious Metals and Stones (DPMS), Trust and Company Service Providers (TCSPs), and Accountants. We are also sending out statistical questionnaires to

conduct risk assessments, which will inform corresponding supervisory actions. The joint onsite inspections will be conducted between November 2024 and March 2025. To support supervision, we are also conducting a sectoral risk assessment of all DNFBP sectors in order to update our understanding of the ML/TF risks.

- Strengthening beneficial ownership transparency of legal persons and arrangements. Kenya Business Registration Services (BRS) continues its efforts to ensure existing companies submit their beneficial ownership information to its e-register. As of early October 2024, 49.7 percent of companies were compliant, while 60 percent of companies on the BRS register are currently considered to be compliant (with compliance obligations under the Act). Existing companies are expected to be fully compliant by end-June 2025, supported by denial of services by BRS until submission requirements are met. To support the implementation of enforcement actions against noncompliant entities, BRS will begin to issue compliance notices starting in November 2024 and will enhance its system to facilitate compliance with reporting requirements and to enforce administrative sanctions for noncompliance with beneficial ownership filing requirements. BRS is currently testing these features with a projected go-live date of summer 2025. BRS is responding to an increasing number of access requests for beneficial ownership information by supervisors, competent authorities, and reporting entities. We also continue to conduct outreach sessions to high-risk sectors and reporting entities on beneficial ownership filing requirements and risks identified in Kenya's risk assessment of legal persons and arrangements.

I. Building Resilience to Climate Change

59. We remain committed to implementing RSF-supported reforms. The first reform measure (RM1) was completed in November 2023, with adoption of the National Framework for Climate Services (NFCS). Rollout is ongoing in all 47 counties, supported by the Financing Locally-Led Climate Action (FLLoCA) Program.[1] The NFCS sets out governance structures for improved collaboration in climate planning and response strategies. Spatial analysis and climate data management has been strengthened through the Kenya Meteorological Department's online platform. The Department has undertaken training of county directors of meteorological services, and all counties have established systems at the local level. In future, this capacity-building will be extended to the ward level—in line with FLLoCA's commitment to empower local communities in climate adaptation planning.

60. Strengthened fiscal reporting and PFM management systems are supporting our climate reform agenda. With IMF assistance, we have developed and included long-term climate-related fiscal risk scenarios (RM2) in the 2024 Budget Policy Statement—to be included in fiscal risk statements going forward. Similarly, integration of climate change and disaster risk methodology in project appraisal (RM5) is on track with ongoing TA from the World Bank. The insights from this TA

[1] The FLLoCA program puts local communities in control of climate adaptation choices, marking a significant departure from traditional top-down reforms. Pooled resources from national departments, county governments, and development partners are being channeled directly to counties in the form of performance based (PforR) conditional transfers. Total funding amounts to US$297 million over a period of 5 years, with effect from February 1, 2022.

have been incorporated into the 2024/2025 budget circular. Currently, the development of regulations, informed by the TA report, is underway. We have designed a climate and disaster risk screening tool to ensure that these projects have climate elements in the assessment criteria. Associated changes to the Public Investment Management Information System (PIMIS) will be made in due course. Climate budgeting tagging (RM8) is progressing with IMF TA. A review of scope, institutional frameworks, and potential for integration with existing financial management systems was completed and climate budget tagging guidelines circulated to departments in July 2024.

61. Fiscal incentives and regulatory reforms will steer Kenya's economy towards a low-carbon, climate-resilient development path. As part of electricity sector reform (RM7), draft open access regulations were gazetted in February 2024 for public consultation. Following stakeholder engagement, we have submitted to the Cabinet Secretary for Energy for finalization and gazettement of these regulations. The net metering regulations were gazetted in May 2024 and its regulatory impact assessment has been done. The net metering regulation would promote the adoption of renewable energy technologies, reducing electricity costs, and enhancing energy security. The framework for net metering agreement has yet to be finalized by off-taker (KPLC). On RM6, the National Green Fiscal Policy Incentives Framework (NGFPF) was adopted in December 2023. The framework provides for a wide range of tools including subsidies, ecological fiscal transfers (biodiversity credits), research grants, a national debt-for-climate and debt-for-nature swaps framework (which has been developed), and concessional loans. A formal communication has been sent to all sectors, requesting them to submit proposals that outline their respective priorities under the Green Fiscal Incentives Policy options. We have approached the IMF for TA with design of a carbon tax (RM3). The World Bank will assist us with considering reform options for recycling proceeds from carbon taxes towards social protection, biodiversity/ecosystems protection, and landscape restoration.

62. We are taking steps to increase the climate resilience of the financial sector, while providing guidance for green investments. With assistance from the European Investment Bank (EIB), we have developed a Kenya Green Finance Taxonomy (KGFT) for Kenya (RM4) based on international best practice and have completed public consultation. The proposed KGFT initially focuses on climate change mitigation and adaptation as its objectives. It is intended to serve as a tool to classify whether economic activities are green or environmentally sustainable. It is also intended to serve as a guide for both banking sector participants and other market participants in making informed investment or financing decisions. The draft KGFT largely drew from Kenya's Nationally Determined Contributions (NDCs) under the United Nations Framework Convention for Climate Change (UNFCC) and other National Climate Policy Documents. Additionally, we worked with the EIB and completed in June a diagnostic review of the Kenyan financial system existing disclosure requirements. The draft Climate Risk Disclosure Framework for the banking sector was issued for public consultation in September 2024. The CBK is on track to adopt the taxonomy and issue guidelines for climate-related risk management disclosures in the banking sector by March 2025 (RM9).

63. Beyond the RSF, we are taking steps to strengthen the broader climate reform agenda. The FLLoCA Program —a collaboration between national government ministries, departments, agencies, county governments, and development partners—is supporting agricultural adaptation, community-led water management, natural resource management, investments in new local green enterprises, and disaster risk management. The Parliament has approved county government allocations of US$60 million, while the KfW component will provide US$34 million to support agro-ecological systems, and green jobs for youth and women. The World Bank has assessed the program as moderately satisfactory, and we are taking steps to improve rates of disbursement and implementation. Currently, 34 counties have received their first County Climate Resilience Investment (CCRI) grant. The remaining counties will be receiving their grants soon, having met the Program-for-Results (PforR) conditions.

J. Other Initiatives

64. As an interim measure to help ease FX pressures, we introduced a new oil import arrangement in April 2023 that was extended to December 2024. It replaced the previous open tendering system, under which oil import dues were payable upon five days of delivery, often creating undue FX market pressures. The new arrangement, based on a master framework agreed between Kenya and three national oil exporters from the Gulf, provides for six-month credit for oil imports, backed by letters of credit issued by participating commercial banks. In 2023, the actual import volumes fell short of the agreed volumes under the arrangement due to lower regional and domestic demand. On September 1, 2023, a supplemental Variation Agreement (VA) was signed, which extended the period to lift the remaining 2023 volumes until end of 2024. The extension of the initial agreement by twelve months was with more favorable costing terms and reduces the risk of materialization of contingent liabilities due to shortfall in the actual imports. Uganda National Oil Company (UNOC) acquired an import license from EPRA. UNOC will be importing diesel (AGO) and petrol (PMS) only for the Ugandan Market and the first cargo is expected towards end of June 2024. Kenya will be importing one cargo less for PMS and AGO each and the number of cargoes under G2G will drop from 8 to 6 in a month. The government intends to exit the oil import arrangement, as we are cognizant of the distortions it has created in the FX market, the accompanying increase in rollover risk of the private sector financing facilities supporting it and remain committed to private market solutions in the energy market. We commit that all FX conversions done as part of the oil scheme will be done at market rates. We will also amend regulations on the fuel pricing formula to specify passthrough of the exchange rate risk component and any other risks that may materialize.

K. Data Quality

65. Policy objectives. We view the production and dissemination of high-quality economic statistics as the foundation for evidence-based decision making for good policy formulation, monitoring, and evaluation. The Kenya National Bureau of Statistics' Strategic Plan 2023–27 seeks to align with the various national, regional, and international development frameworks, including the Kenya Vision 2030, the Bottom-up Economic Transformation Agenda, the Fourth Medium Term Plan, the Africa Agenda 2063, the EAC Vision 2050 and the Sustainable Development Goals. We will

continue to improve on the availability, quality, coverage, and timeliness of our statistics, including for the Enhanced General Data Dissemination System.

66. Data coverage, quality, and timeliness. We have enhanced macroeconomic statistics with a range of new statistical censuses and sample surveys, including the recently launched 2023/24 Housing Survey which is the second such survey since 2011/12 and was delayed due to the COVID-19 pandemic. We continue to work on improving and expanding the national accounts and price statistics, including with IMF TA. We have reassembled the interdepartmental Technical Working Group (TWG) on Government Finance Statistics (GFS). The meetings of the TWG are critical for enhancing data sharing and validation of GFS data from the main source institutions. Our aim is to revitalize and enhance the committee's capabilities in compiling high frequency GFS. These actions, although delayed due to capacity constraints, are expected to lead to the reporting of (i) general government fiscal outturns on a quarterly basis by February 2025; (ii) annual fiscal data of the public corporations' sector (including financial and nonfinancial corporations) by February 2025; and (iii) migration of the fiscal framework to GFSM 2014 based concepts, starting with the QEBR for second quarter of FY2024/25; and (iv) in March 2024, we reviewed the GFS Public Sector Institutional Table and refined the list of extra-budgetary units. This will enable us to expand coverage of quarterly statistics to central government by end-August 2024. These actions will improve transparency and ensure that all stakeholders have easy and reliable access to information. The plan to continuously improve quality of External Sector Statistics, ensuring that necessary adjustments (including coverage, timing, valuation, and classification), encompassing but not limited to oil re-exports and related imports, and associated financing flows, including those contracted under the oil importation scheme is underway. A joint committee with members from the Kenya National Bureau of Statistics, the Central Bank of Kenya, the Energy and Petroleum Regulatory Authority, and the Kenya Revenue Authority has been formed for this purpose and an IMF TA request has been made.

L. Program Monitoring Under EFF/ECF and RSF

67. The EFF/ECF program will continue to be monitored based on periodic performance criteria, continuous performance criteria, Monetary Policy Consultation Clause, and indicative targets as set out in Table 1. Structural benchmarks for the EFF/ECF program are set out in Table 2 will be used for monitoring progress on structural reforms. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons. The ninth reviews of the arrangements will take place on or after March 15, 2025.

68. Under the RSF arrangement, progress in the implementation of the policies will be monitored through reform measures. These are detailed in Table 3.

Table 1. Kenya: Quantitative Performance Criteria and Indicative Targets, December 2022–December 2024

(In billions of Kenyan shillings, unless otherwise indicated)

	2022				2023								2024					
	End Dec.				End Jun.				End Dec.				End Jun.				End Dec.	
	4th Rev.	Adjusted	Outturn	Status	4th Rev.	Adjusted	Outturn	Status	5th Rev.	Adjusted	Outturn	Status	6th Rev.	Adjusted	Prel. Outturn	Status	6th Rev.	Proposed
Quantitative performance criteria																		
Fiscal targets																		
Primary budget balance of the national government (- = deficit; floor)[1]	-110.2	-110.2	99.3	Met	-158.0	-150.8	-83.0	Met	63.9	63.9	223.2	Met	104.9	104.9	22.4	Not Met	156.2	124.4
Tax revenue (floor)[1, 2]	862.3	862.3	913.4	Met	2,035	2,035	1,887	Not met	1,058	1,058	1,017	Not Met	2,428	2,428	2,099	Not Met	1,288	...
Ordinary revenue (floor)[1, 3]	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...		...	1,263
Monetary targets																		
Stock of central bank net international reserves (floor, in millions of US$)[4]	4,984	4,761	4,987	Met	4,393	4,908	5,153	Met	3,575	3,386	3,789	Met	2,422	3,505	4,337	Met	2,377	3,000
Public debt targets																		
Public and publicly-guaranteed external payment arrears (in millions of US$, ceiling)[5,6]	0	0	22.98	Not Met	0	0	0	Met	0	0	0.51	Not Met	0	0	0	Met	0	0
New domestic guarantees granted by the central government (ceiling)[1]	5	5	0	Met	5	5	0	Met	5	5	0	Met	5	5	0	Met	5	5
PV of contracting or guaranteeing of new external debt (ceiling,in millions of US$)[7]	9,905	4,905	1,539	Met	11,766	6,766	2,762	Met	13,340	8,340	4,020	Met	14,471	9,471	7,783	Met	15,101	13,991
Indicative targets																		
Priority social expenditures of the national government (floor)[1]	205	205	206	Met	421	421	441	Met	211	211	273	Met	501	501	512	Met	258	258
Change in the stock of national government exchequer requests outstanding for 90 days or more (ceiling)[1]	0	0	25	Not met	0	0	0	Met	0	0	71.2	Not Met	0	0	66.4	Not Met	0	0
Ceiling on non-accumulation of net domestic arrears (ceiling, on a cumulative basis within the fiscal year)[8]	...	...	...	...	...	...	...	...	0	0	120	Not Met	0	0	0	Met	0	0
Tax revenue (floor)[1, 2]	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	1,151
Monetary policy consultation clause																		
Upper band (annual, percentage points)	7.5	7.5			7.5	7.5			7.5	7.5			7.5	7.5			7.5	7.5
Center inflation target (annual, percentage points)[9]	5.0	5.0	9.4	Not met	5.0	5.0	7.9	Not met	5.0	5.0	6.8	Met	5.0	5.0	4.9	Met	5.0	5.0
Lower band (annual, percentage points)	2.5	2.5			2.5	2.5			2.5	2.5			2.5	2.5			2.5	2.5
Memorandum items for adjustors																		
Programmed amount of new debt issuance for PV-reducing, debt management operations[10]	5,000	5,000	0	...	5,000	5,000	0	...	5,000	5,000	0	...	5,000	5,000	0	...	5,000	5,000
Memorandum items (other)																		
Nominal value of contracting or guaranteeing of new external debt under new PV ceiling (in millions of US$)[10]	14,521	9,521	4,215	...	16,963	11,963	5,872	...	19,474	14,474	7,953	...	21,275	15,048	12,899	...	23,200	21,700

Note: For program performance prior to the December 2022 test date, please see IMF Country Report Nos. 2022/232 and 2022/382.

[1] Targets are cumulative flows from July 1 of each year to June 30 of the following year except for national government exchequer requests outstanding for 90 days or more that are cumulative since July 1, 2020.

[2] For the purpose of the program, the floor excludes taxes related to "Ministerial appropriation in aid" (i.e., RML, RDL, PDL), "Taxes on international trade and transactions (IDF fee)," "Capital gains," and "Other taxes on goods and services."

[3] Ordinary revenue includes taxes and non-taxes except those related to "Ministerial appropriation in aid" (i.e., RML, RDL, PDL).

[4] For program monitoring, calculated as end of period at program exchange rates. Excludes encumbered reserves.

[5] Continuous. At the sixth EFF/ECF reviews this quantitative performance criteria was missed and a waiver of nonobservance was granted by IMF Executive Board following the settlement of the new arrears. No new external arrears accumulated since then.

[6] Syndicated loans, amounting to EUR305.4 million claimed by a syndicate of Italian commercial banks in relation to Arror, Kimwarer, and Itare dams projects, were disputed and subject to arbitration/court proceeding until the sixth EFF/ECF reviews.

[7] Cumulative since June 30, 2021. The PV limit on the contracting or guaranteeing of new external debt would be adjusted downward by the full amount of: (1) any shortfall between the actual and programmed issuance of debt for use in debt management operations (DMOs, as specified as a memorandum item above), and (2) the issuance of any debts for use in DMOs that do not result in a reduction of the present value (present value savings) of the overall public external debt and an improvement of the overall public external debt service profile. In the calculation of the present value savings from DMOs, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of and the debt service due on the instrument it replaces using a discount rate of 7 percent, and these amounts will not be capped by the nominal value of the debt.

[8] Calculated since end-December 2023.

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

[10] Cumulative from program approval.

Table 2. Kenya: Current and Proposed Structural Benchmarks Under the EFF/ECF Arrangements[1/]			
Measure	**Target Date**	**Status**	**Macro-Criticality**
State-Corporations (SCs) Restructuring and Governance			
Cabinet approval of strategy options for restructuring Kenya Airways.	End-April 2024	Not met, proposed to be rescheduled to end-November 2024	Reduce fiscal risks related to SOEs
Cabinet approval and publication of an updated inventory and a new classification of SCs that will apply across the government, in line with the National Treasury Strategy for Improving Financial Oversight at State Corporations document.	End-January 2024	Not met.	SOE governance
Submit to Parliament legal amendments to anchor the new SCs Ownership Policy and other SOE Blueprint measures in the law.	End-May 2024	Not met, proposed to be rescheduled to end-November 2024	SOE governance
National Treasury (NT) to complete financial evaluation for fifty SCs, using their FY2022/23 audited accounts, to quantify fiscal risks emanating from SOEs and report the outcome to the Fiscal Risk Committee.	End-June 2024	Not met. Reporting to the Fiscal Risk Committee pending as of early October.	Reduce fiscal risks related to SOEs
NT to submit to Parliament and publish a report comprising a comprehensive assessment of the national government's continued involvement or investment in, or funding of, SCs and government-linked corporations, that will (i) include specific recommendations for privatization and/or divestment, as well as for mergers, liquidations or dissolutions, transfers to counties and reversions to government departments, (ii) identify and propose solutions for the main legal and operational challenges and bottlenecks to implement the recommendations, and (iii) establish a time-bound action plan for execution.	End-October 2024		Reduce fiscal risks related to SOEs

Table 2. Kenya: Current and Proposed Structural Benchmarks Under the EFF/ECF Arrangements (continued)[1/]

Measure	Target Date	Status	Macro-Criticality
Budget and Revenue Collection			
NT to submit to Cabinet a comprehensive, timebound strategy to validate the stock of outstanding pending bills, address public financial management shortcomings that gave rise to pending bills, and clear the verified pending bills over the medium term consistent with the consolidation path under our program.	End-February 2024	Not met, implemented with delay (June)	Strengthen budget practices and address issues with outstanding arrears
NT to release a report outlining procedures and rules for the clearance of pending bills and other government arrears.	End-February 2024	Not met, implemented with delay (July)	Strengthen budget practices and address issues with outstanding arrears
NT to strengthen the MTRS governance and process, including by establishing a Steering Committee at ministerial level.	End-February 2024	Met	Increase compliance and tax revenue
NT and Ministry of Energy to perform and publish an assessment of the governance structure of the Petroleum Development Fund and recommend actions to strengthen its management.	End-March 2024	Not met, implemented with delay (August)	Provide clarity on fuel pricing policy and avoid unfunded subsidy costs
National Treasury (NT) to submit to Parliament a second Supplementary FY2023/24 Budget consistent with programmed deficit and revenue targets.	End-March 2024	Not met	Ensure fiscal consolidation consistent with program objectives.
NT to submit to Parliament a budget and finance bill for FY2024/25 consistent with programmed deficit and revenue targets.	End-April 2024	Not met	Ensure fiscal consolidation consistent with program objectives.
KRA to develop and publish a strategy for dealing with tax arrears post its tax amnesty program ending in June 2024.	End-November 2024	Proposed	Ensure consistency with the revenue objectives
The MTRS Steering Committee to adopt comprehensive PIT, CIT, and VAT reform plans with a view to prepare the necessary legislative changes for the FY2025/26 Budget.	End-February 2025	Proposed	Ensure consistency with the revenue objectives
NT to submit to Parliament amendments of the PFM Act to reform the framework for in-year revisions to the budget, including by strengthening conditions and introducing rigorous procedures governing supplementary appropriations under Article 223 of the Constitution.	End-December 2024	Proposed	Ensure budget credibility and fiscal consolidation consistent with program objectives

Table 2. Kenya: Current and Proposed Structural Benchmarks Under the EFF/ECF Arrangements (concluded)[1/]			
Budget and Revenue Collection			
NT to submit to Parliament a second Supplementary Budget to reflect adjustments needed to meet spending pressures and clear carryovers while safeguarding the programmed primary balance and revenue targets.	End-January 2025	Proposed	Ensure budget credibility and fiscal consolidation consistent with program objectives
The Auditor General's Office to conduct and publish a comprehensive audit of the use of funds in the PDF and the fuel pricing mechanism, including the triggers for price stabilization decisions.	End-January 2025	Proposed	Provide clarity on fuel pricing policy and avoid unfunded subsidy costs

[1/] Previously assessed structural benchmarks under the EFF/ECF arrangements from the first review through the sixth reviews are available in IMF Country Report Nos. 2021/275, 2022/232, 2022/382, 2023/266, and 2024/013.

Table 3. Kenya: RSF Reform Measures

Reform Measure (RM)		EFF/ECF Review and RM Target Date
Reform Priority 1: Incorporating Climate Risks into Planning and Investment Framework		
RM2:	National Treasury to conduct long-term fiscal sustainability analysis under different climate change scenarios and publish the results in the Fiscal Risk Statement starting in FY2024/25.	Met
RM5:	National Treasury to (i) develop a standardized climate change and disaster risk methodology to be integrated in project appraisal, (ii) include climate considerations in project selection criteria and (iii) reflect the use of the analysis in project concept notes, feasibility studies, and the publication of the project selection criteria.	8th EFF/ECF Reviews (September 30, 2024) 1/
RM8:	National Treasury to implement a prototype of climate budget tagging in key climate sensitive sectors, develop guidelines (applied to all sectors) in the FY2024/25 MTEF circular for budget preparation with a clear definition of climate-related expenditure and publish the results.	9th EFF/ECF Reviews (February 15, 2025)
Reform Priority 2: Mobilizing Climate-Revenue and Strengthening Efficiency		
RM3:	Subject to Parliamentary approval, National Treasury to implement carbon pricing in line with IMF recommendations to better reflect the externalities of fossil fuel consumption and to achieve emissions reduction targets in line with the updated NDC.	7th EFF/ECF Reviews (April 7, 2024) 1/
RM6:	National Treasury to adopt priority fiscal incentives in agriculture, water, and land management sectors, as listed in the draft National Green Fiscal Incentive Policy Framework.	8th EFF/ECF Reviews (September 30, 2024) 1/
RM7:	Cabinet to approve net metering regulation, electricity market, bulk supply, and open access regulations, including rates determination methodology to promote energy efficiency, electricity wheeling, and distributed renewable power generation in the residential, commercial, and industrial sectors, including Special Economic Zones and Industrial Parks.	8th EFF/ECF Reviews (September 30, 2024) 1/
Reform Priority 3: Enhancing Effectiveness of Existing Frameworks to Support Climate Finance		
RM4:	CBK to develop a draft green finance taxonomy adapted to Kenya's updated NDC and circulate the draft for stakeholder consultation.	Met
RM9:	CBK to (i) adopt a green finance taxonomy adapted to Kenya's updated NDC and reflecting stakeholders' comments, (ii) issue guidelines for the implementation of climate related disclosures for the banking sector in line with international best practices, and (iii) introduce time-bound targets for the implementation of climate disclosure requirements.	9th EFF/ECF Reviews (February 15, 2025)
Reform Priority 4: Strengthening Disaster Risk Reduction and Management		
RM1:	Cabinet to adopt the National Framework for Climate Services to enable dissemination of a digital early warning system platform for a multi-sector climate-related information to most vulnerable counties, including ASAL and coastal regions.	Met

1/ Implementation of RM3, RM5, RM6, and RM7 would take longer than originally envisaged.

Attachment II. Technical Memorandum of Understanding

Nairobi, October 18, 2024

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

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

3. The program establishes the following quantitative performance criteria for December 31, 2024:

- The primary balance of the national government including grants, cash basis (**floor**);
- Ordinary revenue of the national government (**floor**);
- The stock of net official international reserves (NIR) of the Central Bank of Kenya (CBK) (**floor**);
- Present value of contracting or guaranteeing of new external debt by the national government and the CBK (**ceiling**); and
- New domestic guarantees granted by the national government or assumption of state-owned enterprise (SOE) debt not reflected in the primary balance (**ceiling**).

4. The program establishes continuous quantitative performance criterion with respect to:

- Accumulation of public and publicly guaranteed external debt arrears (**ceiling**);

5. The program sets the following indicative targets for December 31, 2024:

- Tax revenue of the national government (**floor**);
- The change in the stock of national government exchequer requests outstanding for 90 days or more (**ceiling**);
- Zero accumulation of national government's net domestic payment arrears on a cumulative basis within the fiscal year (**ceiling**); and

- Priority social spending of the national government (**floor**).

6. The program also establishes the following periodic conditionality for December 31, 2024:

- A monetary policy consultation clause (**band**).

II. PERFORMANCE CRITERION ON THE FLOOR OF THE PRIMARY BALANCE OF THE NATIONAL GOVERNMENT

7. The national government primary balance on a cash basis is defined as national government revenues and grants minus expenditures and net lending, plus due interest payments. For the purpose of the program, any financial support transaction of the national government with and on behalf of SOEs with negative equity as of end-June 2020 would be recorded as a transfer to an entity outside the national government regardless of whether the national government acquires a claim on the SOE. Similarly, all operations such as debt swap or exchange of financial assets between the national government and SOEs with negative equity as of end-June 2020 would be recorded as a reduction in net lending and an increase in grants to SOEs.

8. For program purposes, the national government primary balance on a cash basis will be measured from the financing side as the sum of the following: (a) the negative of net domestic financing of the national government; (b) the negative of net external financing of the national government; and (c) domestic and external interest payments of the national government. The national government primary balance will be measured cumulatively from the beginning of the fiscal year until the test date: July 1, 2024 to December 31, 2024 for the end-December 2024 test date.

The above items are defined as follows:

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

  - net changes in the stock of short-term external debt; and
  - any change in external arrears including interest payments.

- **Domestic and external interest payments** of the national government are defined as the due interest charges on domestic and external national government debt.

III. PERFORMANCE CRITERION ON THE FLOOR OF ORDINARY REVENUE

9. For program purposes, ordinary revenue will be defined as the sum of national government tax revenue (see ¶28) and nontax revenue excluding "Ministerial Appropriation in Aid" (i.e., RML, RDL, PDL) presented in the monthly Budget Outturn Tables (BOT).

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

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

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

11. The following **adjustors** will apply to the target for NIR (see TMU Table 1 for details). The adjustor related to foreign exchange outflows on account of support provided to Kenya Airways (KQ) will not be applicable from the end-December 2024 test date following novation of KQ's government-guaranteed external debt.

- If the total of (i) program loans, (ii) the revenue component of project loans, and (iii) external commercial and semi-concessional borrowing (excluding for payments of principal of existing debt with the proceeds from newly issued debt for debt management purposes (¶22) exceeds (falls short) the programmed amounts set out in TMU Table 1 below, the target for NIR will be adjusted upward (downward) by the difference;
- If program grants or the revenue component of project grants falls short of the programmed amounts set out in TMU Table 1, the target for NIR will be adjusted downward by the difference;
- Downward adjustments (all measured cumulatively from end-June 2023) in the NIR floor will be capped at US$690 million for the end-December 2024 test date.

Table 1. Kenya: Projected Program and Project Loans, Grants, and Commercial Borrowing[1]

(Millions of U.S. dollars)

	End-Dec. 2024
Program grants and loans (excl. IMF)	0
Program loans (excl. IMF)	0
Program grants	0
Project loans and grants	275
Project loans (revenue component)	214
Project grants (revenue component)	61
Commercial and Semi-concessional borrowing	0
Foreign exchange outflows related to KQ support	N/A

Sources: Kenyan authorities; and IMF staff projections.

[1] Cumulative from July 1, 2024.

12. NIR is monitored in U.S. dollars, and, for program monitoring purposes, assets and liabilities in currencies other than the U.S. dollar shall be converted into dollar equivalent values, using the exchange rates as specified in TMU Table 2.

Table 2. Kenya: Program Exchange Rates

(Rates as of February 4, 2021)

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

Source: Central Bank of Kenya.

V. CEILING ON ACCUMULATION OF THE PUBLIC AND PUBLICLY GUARANTEED EXTERNAL PAYMENT ARREARS

13. Public external debt arrears to official and private external creditors arise when obligations on external debt are not paid on the due date specified in the underlying agreement, taking into account any applicable contractual grace periods. The definition excludes arrears relating to debt subject to renegotiation (dispute or ongoing renegotiation) or rescheduling. External debt is defined on a currency basis.

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

VI. CEILING ON THE PRESENT VALUE OF CONTRACTING OR GUARANTEEING OF NEW EXTERNAL DEBT

Definition of Debt

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

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

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

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

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

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

Coverage of Debt

18. For the purposes of the ceiling on the contracting or guaranteeing of new external debt (herein, 'the ceiling'), external debt is any debt contracted or guaranteed by the public sector denominated in foreign currency, i.e., currency other than the Kenyan Shilling (Ksh.):

- Public sector external debt includes foreign-currency denominated obligations of the GoK, and foreign-currency denominated obligations of the CBK contracted on behalf of the national government (excluding newly contracted financing from the IMF and the General SDR allocation).
- The definition of debt is presented in the above sub-section, with the exception noted in the previous bullet.
  (i) For program purposes, a 'guaranteed debt' is an explicit promise by the public sector to pay or service a third-party obligation (involving payments in cash or in kind).
- External debts in currencies other than the U.S. dollar will be converted in U.S. dollars at program exchange rates (Table 2).

Contracting of Debt and Treatment of Credit Lines

19. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by the Attorney General. Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

Definition of Debt Ceiling

20. A performance criterion (ceiling) applies to the present value (PV) of new external debt contracted or guaranteed by the public sector. The ceiling applies also to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. Loan obligations between the GoK and the creditors of Kenya Airlines that (i) replace two guarantees previously provided by GoK to the same lenders; (ii) result in present value savings compared to the debt obligations that GoK would have had to assume had the two guarantees been triggered are excluded from the PC.[1]

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[1] In the calculation of the present value savings, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 7 percent, the interest rate assumed for rollover of commercial debts in Kenya's Debt Sustainability Analysis (DSA), and these amounts will not be capped by the nominal value of the debt.

Present Value Calculation

21. For the purposes of the ceiling on the contracting or guaranteeing of new external debt, the present value (PV) of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt.[3] The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). The grant element of external debts in currencies other than the U.S. dollar will be calculated in U.S. dollar terms at program exchange rates (Table 2). For any debt carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month US$ Secured Overnight Financing Rate (SOFR) is 0.04 percent and will remain fixed for the duration of the program as will the spreads over six-month US$ SOFR for interest rates in other currencies as follows: (1) the spread of six-month Euro EURIBOR over six-month US$ SOFR is –56 basis points; (2) the spread of six-month JPY Overnight Indexed Swap (OIS) over six-month US$ SOFR is –8 basis points; (3) the spread of six-month GBP Sterling Overnight Interbank Average (SONIA) over six-month US$ SOFR is 1 basis point; and (4) For interest rates on currencies other than Euro, Japanese Yen, and GBP Sterling, the spread over six-month US$ SOFR is 15 basis points.[4] Where the variable rate is linked to a benchmark interest rate other than the six-month US$ SOFR, a spread reflecting the difference between the benchmark rate and the six-month US$ SOFR (rounded to the nearest 50 basis points) will be added.

Debt Management Operations

22. Debt Management Operations (DMOs) are defined as the repayment or refinancing of the principal of outstanding external public debts prior to or at their maturity dates. The programmed issuance of nonconcessional debt for use in DMOs is shown as a memorandum item in Table 1 of the accompanying Memorandum of Economic and Financial Policies.

Adjustors to Debt Ceiling

23. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

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[2] The calculation of concessionality takes into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[3] The grant element of a debt is the difference between the present value of debt and its nominal value, expressed as a percentage of the nominal value of the debt.

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

24. The debt ceiling would be adjusted upward by the full amount in PV terms of any project financing dedicated to COVID-19 vaccine interventions that was not anticipated at the time of setting of the performance criterion. In this connection, the authorities will consult with IMF staff on any planned external concessional borrowing for this purpose and the conditions on such borrowing before the loans are either contracted or guaranteed by the national government. The rationale for this adjustment will be reassessed in the context of the next review of the EFF/ECF arrangements.

25. The debt ceiling will be adjusted downward by the full amount of: (1) any shortfall between the actual and programmed issuance of debt for use in DMOs, and (2) the issuance of any debts for use in DMOs that do not result in a reduction of the present value (present value savings) of the overall public external debt and an improvement of the overall public external debt service profile. In the calculation of the present value savings from DMOs, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 7 percent, and these amounts will not be capped by the nominal value of the debt.[5]

VII. CEILING ON NEW DOMESTIC GUARANTEES GRANTED BY THE NATIONAL GOVERNMENT

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

VIII. MONETARY POLICY CONSULTATION CLAUSE

27. The bands around the projected 12-month rate of inflation in consumer prices, as measured by the headline consumer price index (CPI) published by the Kenya National Bureau of Statistics, are specified in the TMU Table 3 below.

Table 3. Kenya: Monetary Policy Consultation Clause, 2024

(Percent values)

	End-Dec. 2024 Target
Upper band	7.5
Center point	5.0
Lower band	2.5

[5] The discount rate used for DMOs is set equal to the interest rate assumed for rollover of commercial debts in Kenya's Debt Sustainability Analysis (DSA), with the present value savings thus reflecting the benefit to the public external debt service profile of the longer duration of the newly issued debt instrument compared to that of the debt instrument it replaces.

- If the observed average of the 12-month rate of CPI inflation for the three months preceding the test date falls outside the lower or upper bands specified in the TMU Table 3 below, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources will be interrupted until the consultation takes place.

IX. FLOOR ON THE TAX REVENUE OF NATIONAL GOVERNMENT

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

X. INDICATIVE TARGET ON THE CEILING OF THE CHANGE IN THE STOCK OF THE NATIONAL GOVERNMENT EXCHEQUER REQUESTS OUTSTANDING FOR MORE THAN 90 DAYS

29. For the purposes of the program, national government outstanding exchequer requests are defined as invoices for goods or services provided to the national government, as well as national government's transfer obligations to counties (including for pension and equitable share), State Corporations (SCs) and Semi-autonomous Governmental Agencies (SAGAs), and private sector with the purpose of providing a subsidy for which requisitions for payment have been received in the Integrated Financial Management Information System (IFMIS) but corresponding funds from the exchequer account have not been released.

30. The program ceiling for the change in the stock of outstanding exchequer requests refers to requisitions made after the start of July 2021 and invoices unpaid for 90 days or longer, disregarding any changes related to legal rulings or claims found invalid on bills originated before the start of the program.

XI. INDICATIVE TARGET ON CEILING OF NONACCUMULATION OF NET DOMESTIC PAYMENT ARREARS

31. For the purposes of the program, national government's domestic payment arrears are defined as the stock of pending bills of MDAs and SAGAs/SCs outstanding at end-June of each financial year (as reported in the National Government Budget Implementation Review Report from the Office of the Controller Budget) not inclusive of the national government exchequer requests (¶29) received in the IFIMIS system on and after April 1 of the same financial year (i.e., requests

outstanding for less than 90 days at end-June). At end-December of each financial year, the stock of arrears is computed as the sum of the stock of pending bills as reported in the National Government Budget Implementation Review Report from the Office of the Controller Budget and exchequer requests from the current fiscal year outstanding for more than 90 days (TMU Table 4).

Table 4. Kenya: Stock of Arrears
(Ksh. billions)

	FY2022/23	FY2023/24	FY2023/24
	Jun.	Dec.	Jun.
Total stock of arrears at MDAs and SCs	490.0	610.0	364.2
Memorandum:			
Pending bills at MDAs	123.9	91.5	136.5
Pending bills at SAGAs/SCs	443.6	447.3	379.8
Pending bills at counties	160.2	…	…
Exchequer requests outstanding for less than 90 days	77.5	148.0	152.1
Exchequer requests outstanding for more than 90 days	0.0	71.2	66.4

Source: Kenyan authorities

32. The program ceiling for zero accumulation of net domestic payment arrears requires that in any given fiscal year the stock of such arrears does not rise above the end-June level of the previous fiscal year.

XII. INDICATIVE TARGET ON THE FLOOR OF THE PRIORITY SOCIAL EXPENDITURES OF THE NATIONAL GOVERNMENT

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

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

The floor on priority social spending of the national government is defined as the programmed amounts set out in TMU Table 5.

Table 5. Kenya: Priority Social Spending[1]
(Ksh. millions)

	Dec. 2024
Priority social spending	257,824

Source: Kenyan authorities.
[1] Cumulative from July 1, 2024.

XIII. DATA REPORTING

34. 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 6. The authorities will transmit promptly to Fund staff any data revisions. For any information (and data) that is (are) relevant for assessing performance against program objectives but is (are) not specifically defined in this memorandum, the authorities will consult with Fund staff. The authorities will transmit promptly to IMF staff any data revisions, as well as other information necessary to monitor the arrangements with the IMF.

Table 6. Kenya: Summary of Data to Be Reported

Information	Frequency	Reporting Deadline	Responsible Entity
1. Primary Balance of the National Government			
Net domestic bank financing (including net commercial bank credit to the national government and net CBK credit to the national government broken down in their main components)	Monthly	Within 20 days after month end.	CBK
Net nonbank financing of the national government	Monthly	Within 20 days after month end.	NT
Proceeds from privatization	Monthly	Within 20 days after month end.	NT
Debt service paid and coming due on domestic debt	Monthly	Within 20 days after month end.	CBK
Debt service paid and coming due on external debt	Monthly	Within 20 days after month end.	NT
Disbursements and repayment schedule of external concessional and nonconcessional project loans, including securitization	Monthly	Within 20 days after month end.	NT
Disbursements and repayment schedule of budget support loans	Monthly	Within 20 days after month end.	NT
Disbursements and repayment schedule of on all external loans	Monthly	Within 20 days after month end.	NT
Net proceeds from issuance of external debt	Monthly	Within 20 days after month end.	NT
Any exceptional financing (including rescheduled principal and interest)	Monthly	Within 20 days after month end.	NT
Net changes in the stock of short-term external debt	Quarterly	Within 45 days after quarter end.	NT
Change in external arrears, including interest and principal, and penalties	Monthly	Within 20 days after month end.	NT
Stock and movements in pending bills accumulated by MDAs, counties, SAGAs for prior fiscal years	Monthly	Within 20 days after month end.	NT
Stock of exchequer requests made after the start of July 2020 and unpaid for 90 days or more	Monthly	Within 20 days after month end.	NT
Execution of Extraordinary SOE support	Monthly	Within 20 days after month end.	NT
National government transactions with and on behalf of SOEs broken down in main categories	Quarterly	Within 20 days after the end of the quarter.	NT
2. Public Debt			
Stock of Treasury Bills and Bonds	Quarterly	Within 45 days after quarter end.	NT
Auctions of T-bills and T-bonds via primary dealers, including the number and value of submitted and accepted bids, minimum, maximum, and weighted average interest rates and maturity dates	Weekly	Within 7 working days after the end of the week.	NT
Total new other domestic debt contracted or guaranteed	Monthly	Within 20 days after the end of the quarter.	NT in collaboration with CBK
Total new contracted external project loans	Monthly	Within 20 days after the end of the quarter.	NT
Total other new contracted or guaranteed external concessional debt	Monthly	Within 20 days after the end of the quarter.	NT in collaboration with CBK
Total new Eurobond issuances	Monthly	Within 20 days after the end of the quarter.	NT
Total new other nonconcessional external debt contracted or guaranteed	Monthly	Within 20 days after the end of the quarter.	NT in collaboration with CBK

Table 6. Kenya: Summary of Data to Be Reported (concluded)

Information	Frequency	Reporting Deadline	Responsible Entity
3. Gross Official International Reserves			
CBK's holding of monetary gold (excluding amounts pledged as collateral)	Monthly	Within 20 days after the end of the month.	CBK
Holdings of SDRs	Monthly	Within 20 days after the end of the month.	CBK
CBK holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments)	Monthly	Within 20 days after the end of the month.	CBK
4. Official Reserve Liabilities			
Total outstanding liabilities of the CBK to the IMF excluding the SDR allocations	Monthly	Within 20 days after month end.	CBK
Convertible currency liabilities of the CBK to nonresidents with an original maturity of up to and including one year	Monthly	Within 20 days after month end.	CBK
Commitments to sell foreign exchange arising from derivatives	Monthly	Within 20 days after month end.	CBK
5. Other Indicators			
Currency in circulation	Monthly	Within 20 days after month end.	CBK
Required and excess reserves	Monthly	Within 20 days after month end.	CBK
Concessional and nonconcessional medium- and long-term external debt contracted or guaranteed by the national government and CBK	Monthly	Within 20 days after month end.	NT
Accumulation of national government external debt arrears	Monthly	Within 20 days after the end of the quarter.	NT
Social priority spending of the national government	Quarterly	Within 45 days after quarter end.	NT
Grants to national government entities and total subsidies	Quarterly	Within 20 days after month end.	NT
Guarantees issued by the national government to counties, public enterprises, and all parastatal entities	Monthly	Within 20 days after the end of the quarter.	NT
Stock of guarantees extended by the national government	Monthly	Within 20 days after the end of the quarter.	NT
12-month CPI inflation	Monthly	Within 15 days after the end of the month.	KNBS
Financial Soundness Indicators (core and expanded) for other depository corporations	Quarterly	Within 20 days after quarter end.	CBK
Balances in domestic currency and US$ held in escrow accounts, and exchange rates used to purchase US$, under the government-to-government fuel importation scheme in the domestic banking system	Monthly	Within 20 days after the end of the month.	EPRA

INTERNATIONAL MONETARY FUND

KENYA

October 18, 2024

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR REDUCTION OF ACCESS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR REPHASING OF ACCESS UNDER THE ARRANGEMENTS, MODIFICATIONS OF PERFORMANCE CRITERIA, WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

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

Public debt is assessed to be sustainable, with the assessment being finely balanced and hinging on prompt resolution of fiscal uncertainties, successful and timely delivery of the multi-year fiscal consolidation and achievement of robust export growth. Mechanical signals for Kenya's risk of external and public debt distress remain high, with the debt dynamics worsening since the last DSA, reflecting the recent setback in revenue-based fiscal consolidation, weakened medium-term revenue outlook, and export underperformance.[1] *Risks to the baseline scenario have increased and further policy slippages or significant deviations from these assumptions could risk debt sustainability*

[1] The DSA analysis reflects a debt carrying capacity of Medium considering Kenya's Composite Indicator Index of 3.02, based on the IMF's April 2024 *World Economic Outlook* and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

Since the last DSA assessment, Kenya tapped international bond markets in February 2024, addressing immediate external liquidity pressures from the US$2 billion Eurobond maturing in June 2024. However, near-term fiscal balance is weaker and medium-term revenue mobilization more gradual, while resultant domestic borrowing is expected to be costlier. While a stronger near-term REER path under this baseline helps somewhat with the debt dynamics, external debt service indicators have deteriorated due to continued export and revenue underperformance. A higher medium-term fiscal primary balance would be needed to keep the overall debt consistent with Kenya's debt anchor. [2]

Over the DSA horizon, contingent on the implementation of policies committed under the program, Kenya's debt indicators are forecast to improve: the fiscal effort during the program helps improve the primary surplus in FY2024/25, while the external debt service-to-exports ratio improves gradually. The DSA suggests that Kenya is susceptible to export, exchange rate, and primary balance shocks. Prolonged and protracted shocks to the economy would present downside risks to the debt outlook. The risks to securing socio-political buy in for implementation of revenue-based medium-term fiscal consolidation are significantly elevated. Similarly, the additional spending rationalization that aimed to offset about half of the deficit impact from the withdrawal of the 2024 Finance Bill is subject to considerable risks as pressures are already materializing. A natural disaster shock illustrates the very limited scope for meeting additional financing needs in a stress scenario without jeopardizing debt sustainability, underscoring the importance of putting in place the necessary regulatory framework to tap private sector solutions and enable access to concessional green financing.

[2] See IMF Country Report No. 2024/013, published in January 2024.

PUBLIC DEBT COVERAGE

1. For the purposes of this analysis, the perimeter of public debt covers the debt of the central government, Social Security Fund, central bank debt taken on behalf of the government, and government guaranteed debt (Text Tables 1 and 2). Debt data include both external and domestic obligations and guarantees:

- The external DSA covers the external debt of the central government and the central bank, including publicly guaranteed debt, as well as of the private sector (Text Table 1).
- The public DSA covers both external and domestic debt incurred or guaranteed by the central government. It does not cover the entire public sector, such as extra-budgetary units and county governments.[3] Debt coverage excludes legacy debt of the pre-devolution county governments, estimated at Ksh.53.8 billion (about 0.4 percent of GDP), which is included in the contingent liabilities stress scenario (see below).[4]
- The DSA uses a currency-based definition of external debt. There is no significant difference between a currency-based and residency-based definition of external debt, as nonresidents' direct participation in the domestic debt market is small, estimated at below one percent of total outstanding government securities as of end-2023 but has increased somewhat in the first three quarters of 2024 (Text Table 2).

2. The DSA includes a combined contingent liabilities stress test aimed at capturing the public sector's exposure to SOEs, PPPs, and a financial market shock. In particular, the stress test incorporates the following shocks (Text Table 1):

- 5 percent of GDP to capture reported nonguaranteed debt of state-owned enterprises (SOEs), including pending claims, and extra-budgetary units and Public Private Partnerships (PPPs):
  - The National Treasury survey of state corporations estimated nonguaranteed loan obligations (excluding vis-à-vis the government), including overdrafts, equal to Ksh.111.8 billion (0.7 percent of GDP) as of end-June 2023.[5,6]
  - The calibration of the exposure to PPP-related contingent liabilities is the default one and set at 1.1 percent of GDP.

[3] County governments have not been allowed to borrow without central government guarantee since 2010 and borrowing requires authorization by the National Treasury (NT), while extra-budgetary units face no such constraint.

[4] A new Constitution was approved by referendum in 2010, devolving substantial powers to 47 new county governments.

[5] Guaranteed State-Owned Enterprise (SOE) debt and amounts borrowed directly by the Kenyan government and on-lent to SOEs are included in the public debt stock (see above) and thus not included in the calibration of the contingent liabilities stress test.

[6] The authorities' efforts in carrying out the survey of nonguaranteed loans of state corporations were supported by a Policy and Performance Action (PPA) under the IDA Sustainable Development Finance Policy (SDFP).

- In September 2023, the Cabinet established Pending Bills Verification Committee to verify the stock of pending bills. So far, the Committee has received about Khs.660 billion in claims and the authorities have indicated the Committee has verified about Ksh.100 billion. Of the total claims, about 83 percent is estimated to be liabilities of SOEs. The contingent liability shock is calibrated to include two-thirds (due to intra-agency arrears) of the received claims (Ksh.435 billion or 2.5 percent of GDP) in pending bills. The authorities plan to clear the verified claims in line with the clearance strategy. Once verification process is concluded, these arrears will be included in the DSA baseline.
- 0.4 percent of GDP to cover legacy debt of the pre-devolution county governments;
- 0.3 percent of GDP to account for government contingent liabilities stemming from letters of support issued to participants in the government-to-government mechanism for importation of fuel products launched in April 2023.[7]

- The default 5 percent of GDP for a financial market shock—a value that exceeds the existing stock of financial sector nonperforming loans of about 3.6 percent of GDP.

Text Table 1. Kenya: Public Debt Coverage

Public Debt Coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

		Default	Used for the analysis
1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt	
2	Other elements of the general government not captured in 1.	1.4 percent of GDP	1.4
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2.5 percent of GDP	2.5
4	PPP	35 percent of PPP stock	1.1
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5
	Total (2+3+4+5) (in percent of GDP)		10.0

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition.

[7] The scheme, which had an initial duration of nine months and extended for another 12 months to end-2024, includes the issuance of letters of support by the government to domestic oil marketing companies (OMCs) that also benefit the banks, financial institutions, credit insurance providers, lenders and any hedging counterparties providing financing, insurance, refinancing or hedging to the OMC. The fuel is imported on six-month credit, backed by commercial letters of credit (LCs) issued by domestic banks and confirmed by international banks. A reasonable estimate of the government contingent liabilities stemming from the new fuel import scheme is around 10 percent of the maximum private sector obligation to fuel exporters or around US$400 million (0.3 percent of GDP).

BACKGROUND ON DEBT

3. **Kenya's overall public debt has increased sharply in recent years, reaching highest level in two decades in 2023.** Gross public debt reached to 73.1 percent of GDP at end-2023 (Table 1), reflecting legacy high deficits, the impact of the COVID-19 and natural disasters, and more recently depreciation of the exchange rate, fiscal slippages, and elevated borrowing costs. External public debt amounts to 55 percent of Kenya's overall public debt (Text Table 2).

Text Table 2. Kenya: Decomposition of Public Debt and Debt Service by Creditor, 2023–26[1]

	Debt Stock (end of period)			Debt Service					
	2023			2024	2025	2026	2024	2025	2026
	(In US$ mln)	*(Percent total debt)*	*(Percent GDP)* [2]	*(In US$ mln)*			*(Percent GDP)*		
Total	**70,606**	**100.0**	**73.1**	**13,703**	**11,305**	**10,075**	**11.3**	**9.3**	**8.3**
External	**38,995**	**55.2**	**40.4**	**5,362**	**4,558**	**4,652**	**4.4**	**3.7**	**3.8**
Multilateral creditors	19,418	27.5	20.1	795	1,118	1,445	0.7	0.9	1.2
IMF	2,682	3.8	2.8	-	-	-	-	-	-
World Bank	12,387	17.5	12.8	-	-	-	-	-	-
African Development Bank	3,792	5.4	3.9	-	-	-	-	-	-
European Economic Community (incl. EIB)	199	0.3	0.2	-	-	-	-	-	-
International Fund For Agricultural Development	255	0.4	0.3	-	-	-	-	-	-
Other Multilaterals	103	0.1	0.1	-	-	-	-	-	-
o/w: Arab Bank For Economic Development In Africa	54	0.1	0.1	-	-	-	-	-	-
Nordic Development Fund	23	0.0	0.0	-	-	-	-	-	-
Bilateral Creditors	9,374	13.3	9.7	1,486	1,450	1,410	1.2	1.2	1.2
Paris Club	3,225	4.6	3.3	462	456	430	0.4	0.4	0.4
o/w: Japan	1,227	1.7	1.3	-	-	-	-	-	-
France (incl. AFD)	739	1.0	0.8	-	-	-	-	-	-
Non-Paris Club	6,149	8.7	6.4	1,024	994	980	0.8	0.8	0.8
o/w: EXIM China	5,994	8.5	6.2	-	-	-	-	-	-
EXIM India	57	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	10.1	7.4	2,396	813	844	2.0	0.7	0.7
Commercial creditors	2,766	3.9	2.9	611	1,058	880	0.5	0.9	0.7
o/w: Trade and Development Bank	1,856	2.6	1.9	-	-	-	-	-	-
China Development Bank	0	0.0	0.0	-	-	-	-	-	-
Other international creditors	336	0.5	0.3	74	119	74	0.1	0.1	0.1
o/w: Intesa SanPaolo	195	0.3	0.2	-	-	-	-	-	-
ING Bank Germany	41	0.1	0.0	-	-	-	-	-	-
Domestic[3]	**31,611**	**44.8**	**32.7**	**8,341**	**6,747**	**5,423**	**6.9**	**5.5**	**4.5**
Held by non-residents, total	214	0.3	0.2	-	-	-	-	-	-
T-Bills	3,495	5.0	3.6	-	-	-	-	-	-
Bonds	27,303	38.7	28.3	-	-	-	-	-	-
Loans	813	1.2	0.8	-	-	-	-	-	-
Memo items:			0.0						
Collateralized debt	0	0.0	0.0	-	-	-	-	-	-
o/w: Related	0	0.0	0.0	-	-	-	-	-	-
o/w: Unrelated	0	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	966	1.4	1.0	-	-	-	-	-	-
o/w: Public guarantees [4]	966	1.4	1.0	-	-	-	-	-	-
o/w: Other explicit contingent liabilities [5, 6]	n.a.	n.a.	n.a.	-	-	-	-	-	-
Nominal GDP (at average Ksh/$ rate)	108,039	-	-	-	-	-	-	-	-

Sources: Kenyan authorities; and IMF staff calculations.

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as in the DSA.

[2] Debt ratios are constructed by converting external debt to Ksh using end-period exchange rate and dividing by Ksh GDP.

[3] Includes CBK on-lending to the government of the Ksh-equivalent of the 2021 general allocation of SDRs.

[4] Loan guarantees are included in the perimeter of debt covered by the DSA and include undrawn amount of government-guaranteed loan facilities and letters of credit at high risk of being fully utilized

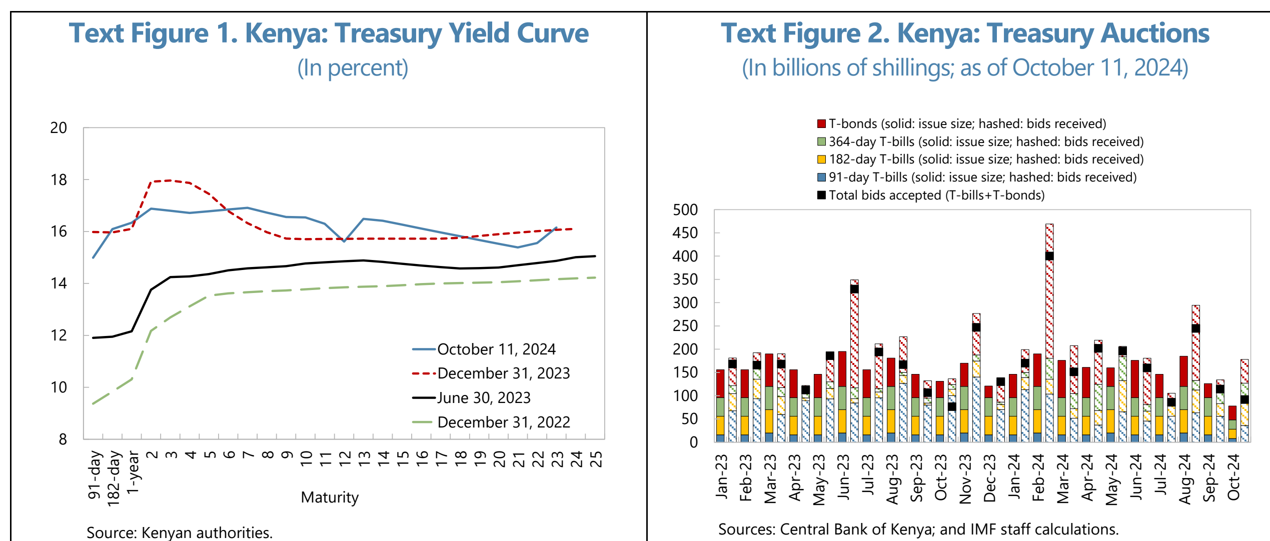
[5] Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

[6] Capacity constraints currently limit data availability on other explicit liabilities not elsewhere classified.

4. A large portion of Kenya's external public debt remains on concessional terms. Nominal public and publicly guaranteed (PPG) external debt at end-2023 amounted to 40.4 percent of GDP, corresponding to 32.1 percent of GDP in present value terms (Text Table 2 and Table 1):

- Kenya has benefited from sizeable support from the multilateral institutions. At end-2023, multilateral creditors accounted for close to 50 percent of external debt, while debt from bilateral creditors represented about 24 percent (Text Table 2). Of Kenya's bilateral debt, close to 66 percent is owed to non-Paris Club members, mainly loans from China.
- At end-2023 commercial debt (mainly Eurobonds, loans, and export credits) accounted for about 26 percent of external public debt and about 47 percent of projected external debt services over 2024-26. Eurobonds accounted for 70 percent of commercial debt (US$7.1 billion). As the international bond markets effectively closed to the frontier economies since early 2022, Kenya tapped syndicated loan markets in 2022–23, contracting US$800 million on commercial terms. On June 21, the authorities reached a negotiated settlement for the EUR305 million claim by a syndicate of commercial banks in relation to Arror, Kimwarer, and Itare dams, which are included in the DSA debt service profile.
- In February 2024, the Kenya made an opportune move, including by leveraging the positive impulse from strong World Bank and IMF support, to issue a new Eurobond (7-year, US$1.5 billion at a coupon rate of 9.75 percent) and bought back nearly three-fourths of a US$2 billion Eurobond maturing in June 2024. This helped address market's concern about Kenya's exceptional liquidity needs, leading to an easing of sovereign spreads. Subsequently, large oversubscription flowed into to a domestic bond issuance. As a result, the shilling strengthened rapidly, and the Central Bank of Kenya (CBK) made FX purchases. In addition, in early 2024 Kenya contracted US$506 million commercial loans from Trade Development Bank with average maturity of 6 years. Larger than programmed external nonconcessional borrowing in 2024 has consumed a large portion of the space available under the borrowing limits performance criterion, leaving limited room for additional borrowing for the rest of the program.

5. Kenya's domestic public debt reached to about 33 percent of GDP at end-2023 (Text Table 2 and Table 2). About half of government domestic debt securities are held by institutional investors (more than one third by pension funds; the remainder held by insurance companies and parastatals), followed by commercial banks with a 47 percent share. Yields on government securities increased and the front end of the treasury yield curve continued to move up in 2023 amid large gross financing needs and tighter liquidity conditions. The average time to maturity has declined to 7.4 years, reflecting investor preference for the shorter tenor securities. Yields remained elevated in 2024 despite successful Eurobond placement, reflecting concerns about the tax revenue performance and spending pressures (Text Figure 1). The infrastructure bond issuances and tap sales in February and August 2024 (Ksh.361.7 billion or about US$2.8 billion) were oversubscribed, including from nonresident investors (Text Figure 2).



Text Figure 1. Kenya: Treasury Yield Curve
(In percent)

Source: Kenyan authorities.

Text Figure 2. Kenya: Treasury Auctions
(In billions of shillings; as of October 11, 2024)

Sources: Central Bank of Kenya; and IMF staff calculations.

UNDERLYING ASSUMPTIONS

6. Medium-and-long term outlook is positive, but risks to baseline assumptions have increased substantially (Text Tables 3 and 4):

- Real GDP growth is projected at 5 percent in 2024 and for the medium and long term. Projections are slightly revised down from the previous DSA, reflecting slower recovery in capital accumulation due to rationalization of public development spending, low execution rate of foreign-financed projects, and limited space for borrowing. Nominal GDP in U.S. dollars is projected to be slightly higher than in the last DSA over the medium term, reflecting a revised REER path for 2024 and 2025 offsetting the downward revision to the deflator from the last DSA.

- Medium-to long-term growth is supported by the projected productivity growth, an ambitious structural reform agenda, policies to reinforce credit to the private sector, as well as favorable demographic trends. Over the medium term, growth is backstopped by the crowding-in effect of fiscal consolidation (i.e., lowering public financing needs would reduce demand-side pressures on domestic interest rates and free up financing for private investment, while privatization of SOEs would raise productivity), which is based on domestic

Text Table 3. Kenya: Selected Macroeconomic Indicators, 2022–28

	2022	2023	2024	2025	2026	2027	2028
			Projections				
Real GDP growth (percent)	4.9	5.6	5.0	5.0	5.0	5.0	5.0
CPI inflation, average (percent)	7.6	7.7	5.0	5.3	5.1	5.1	5.0
Overall fiscal balance (percent of GDP) [1]	-6.2	-5.9	-5.6	-4.3	-4.0	-3.6	-3.3
Primary balance (percent of GDP) [1]	-1.0	-0.6	0.1	1.4	1.5	2.1	2.4
Current account balance (percent of GDP)	-5.0	-4.0	-3.9	-4.0	-4.1	-4.1	-4.1
Exports of goods and services (US$ billion)	13.9	12.6	13.2	14.3	15.6	16.9	18.3
Exports of goods and services (growth; percent)	17.2	-8.9	4.9	7.8	9.2	8.2	8.5
Gross international reserves (US$ billion)	8.0	7.3	8.2	8.9	9.7	10.4	11.1

Sources: Kenyan authorities and IMF staff estimates and projections.
[1] Fiscal years (e.g., 2022 refers to FY 2021/22).

revenue mobilization and spending rationalization measures to anchor debt sustainability.[8] Fiscal consolidation over the medium term is expected to be growth friendly and inclusive, focusing on a more efficient, equitable, and progressive tax system—as envisaged under the authorities' Medium-Term Revenue Strategy (MTRS)—improved inclusivity and support under the social safety net programs, and enhanced efficiency of public investments.

Text Table 4. Kenya: Selected Macroeconomic Assumptions, 2023–43

(Calendar year basis)

	2023	2024	2025	2026	2027	2028	2029	Long-term 1/
Nominal GDP (Ksh billion)								
Current DSA	15,109	16,585	18,300	20,165	22,211	24,429	26,915	63,426
Previous DSA (January 2024)	15,184	17,064	18,905	20,985	23,215	25,660	28,358	62,386
Real GDP (growth)								
Current DSA	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Previous DSA (January 2024)	5.1	5.0	5.3	5.3	5.3	5.3	5.3	5.3
Inflation								
Current DSA	7.7	5.0	5.3	5.1	5.1	5.0	5.0	5.0
Previous DSA (January 2024)	7.7	7.0	5.2	5.4	5.0	5.0	5.0	5.0
Revenue and grants (percent of GDP)								
Current DSA	16.9	17.7	18.4	19.0	19.5	19.8	19.9	19.9
Previous DSA (January 2024)	18.0	19.1	19.4	19.5	19.5	19.5	19.5	19.5
Overall fiscal balance (percent of GDP)								
Current DSA	-5.7	-4.9	-4.2	-3.8	-3.4	-3.1	-3.3	-3.1
Previous DSA (January 2024)	-5.3	-4.1	-3.3	-3.2	-3.2	-3.3	-3.5	-4.6
Primary fiscal balance (percent of GDP)								
Current DSA	-0.6	0.6	1.5	1.8	2.3	2.5	1.6	0.5
Previous DSA (January 2024)	-0.1	1.2	1.7	1.7	1.6	1.5	1.2	0.5
Public debt (percent of GDP)								
Current DSA	73.1	67.0	68.7	68.8	66.6	64.1	61.9	51.5
Previous DSA (January 2024)	73.6	73.4	70.4	67.8	65.4	63.1	61.1	49.3
Current account (percent of GDP)								
Current DSA	-4.0	-3.9	-4.0	-4.1	-4.1	-4.1	-4.1	-3.9
Previous DSA (January 2024)	-4.0	-4.1	-4.2	-4.2	-4.2	-4.1	-4.0	-3.9
Non-interest current account (percent of GDP)								
Current DSA	-2.5	-2.4	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6
Previous DSA (January 2024)	-2.3	-1.9	-2.0	-2.2	-2.3	-2.3	-2.2	-2.4
Exports of goods and services (growth)								
Current DSA	-8.9	4.9	7.8	9.2	8.2	8.5	9.3	7.8
Previous DSA (January 2024)	-3.3	9.5	9.4	8.6	8.5	8.4	9.1	9.3

Sources: Kenyan authorities and IMF staff estimates.

1/ Average 2030-44 for current DSA and 2029-43 for the previous one.

7. Fiscal assumptions are predicated on delivery of the strong medium-term primary balance adjustment, significant deviations from which would risk debt sustainability:

- **FY2023/24:** The planned fiscal consolidation in FY2023/24 did not materialize (Text Table 5). The year ended with a fiscal deficit larger than programmed by about 0.6 percent of GDP, amid an estimated 1.8 percent of GDP tax revenue shortfall.
    - The shortfall was broad-based and reflected lower yields from the policy measures in the 2023 Finance Act, failure to garner political support to enact the amendments to the 2023

[8] The Kenya Kwanza administration has prioritized the privatization of SOEs that can operate as market producers. In 2023, a new Privatization Act was passed but it was adjudged unconstitutional by the High Court in September 2024. The authorities intend to seek legal recourse to this ruling. Some privatization efforts that are not impacted by the Privatization Act of 2023 are ongoing.

Tax Laws Bill (submitted to Parliament in mid-December), and potential lapses in tax administration.[9]

- To limit the impact of the tax revenue shortfall on the deficit, the authorities identified nontax measures (0.6 percent of GDP) that were mostly temporary in nature (e.g., higher dividends and surplus funds from parastatals, including the CBK). To offset the impact of expected spending overruns in the education, security, social sectors, as well as the response to the El Niño-related floods, they approved a second Supplementary FY2023/24 Budget (Supplementary II) in early June to rationalize nonpriority development spending (predominantly foreign financed).

Text Table 5. Kenya: FY2023/24 Fiscal Performance

(In percent of GDP)

	Dec	June			
	Actual	*6th Rev.*	*Suppl. I*	*Suppl. II*	*Est.*
Revenues and grants	**8.3**	**19.0**	**19.0**	**18.3**	**17.2**
Tax revenue	6.4	15.1	15.1	13.5	13.2
Nontax revenue	1.9	3.7	3.7	4.5	3.8
Grants	0.0	0.3	0.3	0.2	0.1
Expenditure and net lending	**10.8**	**23.8**	**24.4**	**24.0**	**22.8**
Interest payments	2.6	5.4	5.7	5.3	5.3
Other current spending	6.5	13.8	14.1	14.6	14.0
Development and net lending	1.7	4.6	4.6	4.1	3.4
Adjustments to cash basis	1.1	0.0	0.0	0.0	0.3
Overall balance including measures (cash basis, incl. grants)	-1.3	-4.7	-5.3	-5.7	-5.3
Primary balance incl. grants	**1.4**	**0.7**	**0.4**	**-0.4**	**0.1**
Financing	1.1	4.7	5.3	5.7	5.2
Net foreign financing	-0.2	1.7	2.6	1.6	1.4
Net domestic financing	1.3	3.0	2.8	4.1	3.8
Memorandum:					
In Ksh. Billions					
PC on tax collection	1,058	2,428			2,428
PC on the primary balance	64	105			105

Sources: National Treasury; and IMF staff calculations and projections.

- These developments resulted in about 0.8 percent of GDP higher domestic financing needs relative to expectations at the time of the sixth EFF/ECF reviews, keeping domestic borrowing costs elevated. With the Supplementary II approved in early June, the authorities could only meet just over half of the additional domestic financing needs through new debt issuances in June (the last month of fiscal year). As a result, additional pending bills were accumulated. The total spending carryover to FY2024/25 is significant, estimated at 1.3 percent of GDP.

- **FY2024/25:** To correct for the FY2023/24 fiscal slippages, the authorities submitted to Parliament a draft FY2024/25 Budget and the 2024 Finance Bill containing revenue and spending measures consistent with program parameters, bringing the fiscal path back on track to meet the debt anchor (overall debt/GDP of 55±5 percent in present value terms by 2028). Amid strong opposition to the proposed revenue measures the 2024 Finance Bill was withdrawn in late June. Subsequently, in July, a Supplementary FY2024/25 Budget was approved with additional expenditure cuts to compensate for about half of the foregone revenue (1.8 percent of GDP) from the withdrawn 2024 Finance Bill. As a result, the

[9] Staff assesses that the shift in the sources of economic growth toward the agricultural sector (less taxed) in 2023 and 2024 could explain only a small portion of the estimated tax revenue shortfall.

Supplementary FY2024/25 Budget targets a primary surplus of 1.4 percent of GDP (about 1 percent of GDP lower than what was envisaged in the FY2024/25 Budget).[10] Specifically:

- On the revenue side, the authorities expect to collect higher ordinary nontax revenues from increased levies and fees, and SOE dividends (yielding 0.3 percent of GDP).[11,12]
- On the spending side, relative to FY2023/24, the authorities envisaged a 1.3 percent of GDP rationalization of primary spending through efforts to contain the wage bill, transfers (with a focus on parastatals), and intermediate consumption, while further rationalizing nonpriority projects.[13] About half of the financing gap resulting from the withdrawal of the 2024 Finance Bill is closed through additional spending cuts (0.7 percent of GDP). While the government announced additional wage bill savings and further cuts to the operations and maintenance budget, more than 90 percent of the spending cuts relative to the FY2024/25 Budget falls on domestically financed development spending.

8. However, risks of slippages are substantial and revenue and spending outcomes so far in the early months of the FY2024/25 remain concerning:

- New revenue measures needed to credibly reduce debt vulnerabilities face risks, while revenues in the first two months underperformed. Risks include delays in garnering the social and political support needed to introduce new revenue measures in the near term to offset spending pressures and in the medium term to meet social and developmental needs and address debt vulnerabilities, and uncertainties on the constitutionality of the 2023 Finance Act.[14] In view of the spending pressures, the authorities have proposed several revenue measures amounting to 0.9 percent of GDP (annual yield), through a tax laws amendment bill. However, the measures will not be sufficient to offset the new spending pressures, necessitating further measures to preserve the primary balance target. To this end, the authorities are committed to submit to Parliament a Supplementary II FY2024/25 Budget by end-January 2025. Likewise, to preserve the primary balance target and prevent further accumulation of unpaid bills, they are committed to swiftly address any adverse ruling by the Supreme Court on the constitutionality of the 2023 Finance Act through revenue measures in compliance with the Court's guidance. Meanwhile, revenue performance in the first two month of the current fiscal year continued to disappoint, with tax revenues declining by 0.8 percent (y/y).

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[10] The draft FY2024/25 Budget, presented in the Budget Speech on June 13, targeted a primary surplus of 2.4 percent of GDP, up from 1.7 percent of GDP under the sixth EFF/ECF reviews, to correct for the fiscal slippage in FY2023/24 and offset associated interest cost (up by 0.5 percentage points of GDP relative to the sixth EFF/ECF reviews).

[11] The authorities also expect to collect more revenues from tax administrative measures. Staff treats yields from any such measures as an upside to the baseline.

[12] Ministerial Appropriations in Aid (AiA) are projected to decline in percent of GDP, but this is budget neutral as the receipts are earmarked for corresponding AiA spending.

[13] Using staff's projected fiscal year GDP, this effort would amount to about 1 percent of GDP.

[14] On July 31, the Court of Appeal ruled the 2023 Finance Act as unconstitutional due to inadequate public consultation. Subsequently, the Supreme Court issued a stay order on the ruling, allowing the authorities to collect taxes under the said Act. A verdict from the Supreme Court is pending.

- Spending cuts are subject to considerable risks given their top-down across-the-board nature, with spending pressures already materializing. New spending pressures from collective bargaining agreements (0.1 percent of GDP), the education and security sectors (0.3 percent of GDP), and the clearance of the spending carryover from FY2023/24 (0.9 percent of GDP) amount to 1.3 percent of GDP. In addition, savings from reducing transfers to parastatals may not materialize fully if the affected entities are not sufficiently self-sustaining and in good financial health.[15]

9. Bringing revenue-based fiscal consolidation back on track is central to debt sustainability. The authorities' fiscal strategy would need to embark on a renewed revenue-based fiscal adjustment from FY2025/26 to reduce debt vulnerabilities, relying on a steady increase in tax and non-tax revenue (cumulatively by about 1.6 and 0.2 percent of GDP, respectively). Even staying within the upper limit of the band around the debt anchor by 2028 will require an average annual primary effort of about 0.3 percent of GDP over the medium term.[16] To this end, strengthening accountability and charting a path for a more efficient, equitable, and progressive tax regime would be key to restore public trust, tax morale and build social consensus on revenue-based fiscal strategy.

10. Delivering on commitments under this program will be critical to ensure the overall deficit to durably decline to below 4 percent of GDP over the medium term (Text Tables 3 and 4).[17] With the primary balance averaging about 1.4 percent of GDP over the next decade, well-above its debt-stabilizing level (estimated at about 0.2 percent of GDP surplus over a 10-year horizon, thanks to a favorable interest-growth differential), the public debt-to-GDP ratio remains on a firmly downward path. This is consistent with safeguarding debt sustainability, while relaxing somewhat the budget constraint on social (Text Table 6) and developmental spending over the long run.

Text Table 6. Kenya: Social Spending Outlays, FY2016/17–FY2024/25

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25 *Proj.*
					(Ksh. Millions)				
Social spending	256,253	305,275	345,956	380,051	407,905	434,585	443,218	514,016	513,206
Social protection	15,489	18,329	26,669	25,554	26,031	26,194	25,987	26,792	28,163
Education	219,010	269,534	295,555	314,027	337,524	359,130	370,729	445,982	450,799
Health	21,754	17,412	23,732	40,470	44,350	49,260	46,502	41,242	34,244
Memo item:					*(Percent of GDP)*				
Social spending	3.2	3.4	3.5	3.6	3.6	3.4	3.1	3.2	2.9

Source: Authorities data and estimates.
Note: Fiscal year GDP is estimated as average of its values in the calendar years it spans.

[15] Staff raised concerns around the viability of the 28 percent cut, on average across entities, in the recurrent transfers from FY2023/24, especially for entities that have little margin to raise fees and cut spending. This may hold for entities in the education and health sector that account for the bulk of the cuts.

[16] Parliament stipulated that the debt anchor of 55 percent of GDP of overall debt/GDP in present value terms should be reached within 5 years of adoption, thus by 2028, allowing for a margin of ±5 percent for unforeseen shocks.

[17] The MTRS provides a blueprint for achieving the authorities' objective of increasing revenue mobilization by 8 percentage points of GDP by 2030, while supporting global competitiveness and prosperity consistent with Kenya's Vision 2030.

11. Supporting revenue measures with structural improvements in expenditure profile remains critical for medium term fiscal efforts. Addressing weaknesses in Kenya's public financial management (PFM) system might help reduce fiscal pressures and crowding out of critical investments and social spending while improving the investment climate. Timely transitioning to a Treasury Single Account (TSA) would strengthen the government's ability to manage cash, helping avoid excessive borrowing, compromised commitments control, and delayed transfers to service delivery units.[18] Kenya's public procurement constitutes an unusually high percentage of GDP, amplifying the expenditure inefficiencies due to slow and inefficient procurement systems and practices at various levels of government. [19] The public sector wage bill, including allowances, is subject to complex rules and regulations at the central government and county levels, many of which are not enforced, leading to repeated breach of payroll ceiling. The World Bank's parallel series of Development Policy Operations (DPOs) supports the government in undertaking structural reforms to enhance the efficiency and transparency of the budget, while increasing space for public investment, including at the subnational level. Garnering public trust and tax morale would call for stepping up reforms in these areas.

12. Macro-fiscal assumptions underlying the DSA baseline scenario include an estimate of the authorities' climate-related public investment. The forecast is benchmarked by the latest available data of 2.6 percent of GDP in 2018. It includes an additional climate investment of around 0.25 percent of GDP per year, supported by the IMF's Resilience and Sustainability Facility (RSF) and the World Bank's climate-oriented financing (see ¶29 below), as well as from other financing from development partners.[20, 21] Fiscal constraints in the short run limit the government's capacity for increasing public spending to accommodate additional climate-related needs and baseline growth assumptions are predicated on current policies and public investment assumptions.[22] Against this backdrop, scaling up climate related investments will require additional focus on improving the efficiency of public spending, attracting highly concessional external climate financing, and encouraging private sector participation in reaching Kenya's ambitious climate objectives (see ¶29).

13. The path of nominal public debt-to-GDP ratio is revised up from the last DSA, reflecting revised fiscal adjustment path and elevated interest costs. 2023 real GDP growth outturn was 5.6 percent, better than the projection under the previous DSA, and the updates to the projected REER path in 2024–25 have increased the forecasted U.S. dollar value of nominal GDP compared to the last DSA, offsetting some of the increase in the debt stock. The near-term exchange rate appreciation reflects recent sharp appreciation of the nominal exchange rate and

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[18] World Bank (2020). "*Kenya Public Expenditure Review*". See also "*Kenya Public Expenditure and Financial Accountability (PEFA) 2023*".

[19] See https://blogs.worldbank.org/en/developmenttalk/how-large-public-procurement.

[20] The RSF disbursements would substitute more expensive domestic debt, thus improving debt dynamics by helping reduce the present value of debt and debt servicing burdens.

[21] Economic benefits of successful mitigation and adaptation strategies will be incorporated at a later stage.

[22] Climate-related risks are not explicitly modeled in the baseline. Their effect is, instead, captured in the natural disaster stress test scenario.

REER, the latter also impacted by a faster deceleration in inflation.[23] Despite the near-term improvement in stock metrics due to exchange rate appreciation, weaker fiscal outlook and costlier borrowing assumptions have led to higher debt-to-GDP ratio in the medium term and weaker liquidity indicators. The medium-term exchange rate path remains similar to the previous DSA.

14. External financing assumptions under the program changed somewhat. For external financing, Kenya is expected to continue to primarily rely on multilateral development loans in 2024–25. Disbursements from the World Bank financing envelope is expected to remain similar to the previous DSA.[24] However, total access under the IMF program is revised down by about US$297 million as the near-term exceptional BoP needs that were anticipated at the sixth EFF/ECF reviews have dissipated following issuance of a Eurobond in February. However, the composition of the remaining access has changed too: access under the ECF arrangement is up by some US$159 million while that under the EFF arrangement (less concessional) reduced by some US$456 million. Shortfalls in external project financing continued in FY2023/24 and are forecast to remain subdued in FY2024/25 in line with the authorities' consolidation plan that envisages a significant rationalization in foreign-financed projects. Looking beyond 2024, Kenya is expected to continue to tap global capital markets to rollover maturing external commercial financing. The authorities are exploring alternative sources of financing from multilateral, bilateral, and commercial sources, including sustainability linked and climate adaptation bonds.

15. Kenya should rely on concessional borrowing as debt vulnerabilities have increased further and the space under the program borrowing limit has narrowed significantly. Since the last DSA, Kenya contracted large external borrowing, including nonconcessional debt, to address pressing financing needs from maturing Eurobond and a deteriorating fiscal situation. The cumulative external loan contracting (excluding the IMF) from the start of the program amounted to about US$7.8 billion (PV terms) by end-June 2024, leaving about US$1.2 billion (PV terms and excluding the space accorded to liability management operation) space for additional new borrowing until the end of the program.[25] Relying on concessional borrowing would allow Kenya to meet its financing needs while remaining within the ceiling set by the performance criterion on new external borrowing.

16. The authorities' indicative borrowing plan is ambitious and needs to be aligned with program borrowing limit (Text Table 7). Historically, the authorities' borrowing plan has been ambitious as reflected in its consistent under-execution, the recent history of project disbursements, and actual performance in terms of investment absorption capacity. While the authorities indicative borrowing plan includes additional commercial issuances in 2024, DSA baseline assumes no such issuance for the remainder of 2024. Unless structured as a liability management operation to

[23] As of August 2024, the real effective exchange rate had appreciated by 23.2 percent since January 2024. Headline inflation had eased to 3.6 percent y/y by September 2024, compared to 6.9 percent y/y in January.

[24] See the World Bank's November 20, 2023 statement.

[25] The debt target includes some buffer for commercial issuance that is consistent with the DSA and an adjustor for up to US$5 billion debt management operation that would improve PV of debt and smooth repayment profile. The US$1.5 billion Eurobond issued in 2024 is accommodated in the debt limit target.

improve debt profile, an issuance of large external debt on nonconcessional terms would lead to a breach of the program borrowing limit and a further deterioration in the external DSA metrics. Overall, the possibility of excessive borrowing beyond the baseline is mitigated as the authorities' external borrowing commitments are anchored with an overall ceiling on the present value of newly contracted or guaranteed external public debt under the IMF-supported EFF/ECF arrangements, which is also a performance and policy action (PPA) under the World Bank's Sustainable Development Finance Policy (SDFP).[26] The fiscal adjustment under the program and the authorities' medium-term debt anchor (55±5 percent PV of overall debt to GDP ratio by 2028) are additional mitigants.

Text Table 7. Kenya: Summary Table of Projected External Borrowing Program from July 1, 2021 to December 31, 2024[1]

PPG External Debt	Volume of New Debt from Jul 1, 2021 to Dec 31, 2024		PV of New Debt from Jul 1, 2021 to Dec 31, 2024 (Program Purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**18118.7**	**100**	**13991.3**	**100**
Concessional debt, of which	**9917.4**	**55**	**5903.4**	**42**
Multilateral debt	7321.5	40	4336.7	31
Bilateral debt	2565.8	14	1548.9	11
Other	0.0	0	0.0	0
Non-concessional debt, of which	**8201.3**	**45**	**8087.9**	**58**
Semi-concessional	395.3	2	281.9	2
Commercial terms	7806.0	43	7806.0	56
By Creditor Type	**18118.7**	**100**	**13991.3**	**100**
Multilateral	7583.7	42	4511.2	32
Bilateral - Paris Club	1292.8	7	778.7	6
Bilateral - Non-Paris Club	1273.0	7	770.2	6
Other	7969.2	44	7931.2	57
Uses of debt financing	**18118.7**	**100**	**13991.3**	**100**
Infrastructure	10500.3	58	8612.3	62
Social Spending	2074.2	11	1195.8	9
Budget Financing	3295.1	18	2014.8	14
Other	2249.2	12.4	2168.3	15.5

Sources: Kenyan authorities; and IMF staff calculations.

[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate. For commercial debt, the present value is defined as the nominal/face value.

17. Relative to the previous DSA, reliance on domestic debt is higher, reflecting the impact of the recent fiscal slippages and resultant additional domestic financing needs. This is projected to keep domestic rates elevated longer and interest payments higher, contributing to

[26] One FY2022 PPA sought to improve debt management by ensuring that the government limits the present value of new external borrowing to US$5.6 billion in FY2021/22, except if this limit is adjusted by the World Bank to: a) reflect any material change of circumstances, or b) in coordination with the IMF, in particular in line with adjustments in the IMF Debt Limit Policy. The PPA was observed by a wide margin.

higher debt levels and potentially crowding out private sector. Heavier reliance on tax free infrastructure bonds with significant nonresident investor participation exposes Kenya's debt to sudden sentiment reversals and exchange rate pressures.

18. To support economic recovery, the CBK has lent the equivalent of the full amount of the 2021 US$740 million general allocation of SDRs to the government in local currency to meet financing needs in FY2021/22 and FY2022/23. In the DSA, the amounts lent are recorded as domestic debt at face value.

19. As part of supporting Kenya Airways (KQ), the Government of Kenya has been servicing the guaranteed portion of KQ external debts to external creditors, which the company can no longer service. The authorities have completed the novation process of the guaranteed external loan to external creditors. As a result, public and publicly guaranteed debt includes the sum of the principal of these obligations and the remaining government guarantee on other KQ external loans (US$589 million as of December 2023) in place of the US$750 million government guarantee of KQ debts recorded previously.[27] On the FX-denominated debt to local banks, out of a US$225 million government guarantee, about US$150 million was called in August. The authorities intend to issue tradable local currency securities to settle the called amount.

20. The current account deficit is projected at about 4 percent of GDP in 2024 and to stabilize around that level over the medium term:

- Current account deficit narrowed to 4.0 percent of GDP in 2023, reflecting broad based decline in both energy and non-energy imports amid real exchange rate depreciation and completion of some large infrastructure projects. Exports of goods and services slowed as the demand from traditional agricultural export markets was subdued and transportation services saw a sharp contraction. Tourism receipts exceeded pre-pandemic levels and together with robust remittances supported external balance.
- Current account deficit is projected at close to 4 percent of GDP in 2024 as fiscal consolidation weighs on import growth, offsetting the impact of stronger exchange rate. In the first half of 2024, robust remittances growth (17 percent y/y) continued to support the current account balance while export and import growth was below expectation, including weaker services exports despite a strong growth in tourist arrivals.
- Over the medium term, the expected stabilization of the current account deficit is warranted, primarily through adjustments in imports, as capital inflows continue to remain below historical averages. The improvement in the current account will be supported by the further fiscal consolidation and robust goods exports and tourism receipts, continued exchange rate flexibility, and by the gradual normalization of global commodity and financial market conditions. Export growth stands to benefit from Kenya's improving business environment, leveraging on existing trade and investment agreements (such as the AfCTA), and the administration's policy priorities to increase the share of manufacturing (including agro-

[27] The total includes the government-guaranteed loan facilities and letters of credit by local banks.

processing) and services (including tourism and financial sector) in the economy.[28] An Economic Partnership Agreement between the European Union and Kenya has entered into force, which include duty and quota-free access for Kenyan exports to the EU market. In addition, export growth will be supported by policies to enhance agricultural productivity, including focus on farmer-led irrigation, efforts to modernize Kenya's food systems, and greater value chain integration. The World Bank through a series of Development Policy Operations (DPOs) is supporting the Government of Kenya in undertaking associated structural reforms. Services are projected to gradually increase over the medium term, as the tourism sector realizes its full potential. Remittances are also projected to remain robust over the medium term. The private sector current account deficit is expected to improve too and to be financed by a diversified set of sources, including foreign direct investment (FDI) and financial and nonfinancial corporate sector borrowing.

- Kenya's external position is backstopped by its gross international reserves, which grew in 2024 and remains at adequate levels. FX reserves are projected to remain adequate with import coverage at around 4.2 months over the medium term.

21. The realism tools flag slight optimism compared to historical performance, reflecting a structural break with past trends based on the policies underpinning the authorities' ambitious adjustment program (Figure 4). While protecting social spending, the baseline scenario assumes an improvement of the fiscal primary balance of about 2.5 percentage points of GDP over three calendar years in 2024–26, which falls in the top quartile of the distribution for LICs. Staff is of the view that this is realistic and in line with the authorities' plan for fiscal consolidation. Fiscal adjustment and growth realism tool point to realism of growth projections. A major break from historical performance pertains to exports, but not captured with DSA realism tools. Export growth is projected to be significantly higher than in the recent past, as exports of goods and services recover from the 2020 global shock and the authorities continue removing bottlenecks to exports.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

22. Kenya's debt carrying capacity is assessed as Medium (Text Table 8). Kenya's Composite Indicator (CI) Index is 3.02, which incorporates data from the IMF's April 2024 *World Economic Outlook* (WEO) macroeconomic projections and the 2022 World Bank's Country Policy and Institutional Assessment (CPIA).[29] The marginally higher CI score relative to the last published DSA in

[28] Kenya is a member of the East African Community Customs Union and the African Continental Free Trade Area. It has signed an Economic Partnership Agreement (EPA) with the UK and has started bilateral implementation of European Union-East African Community EPA. In 2022, Kenya and the United States launched Strategic Trade and Investment Partnership that aims, *inter alia*, to increase investment, promote sustainable and inclusive economic growth, and support African regional economic integration.

[29] The CI captures the impact of various factors through a weighted average of an institutional indicator, real GDP growth, remittances, international reserves, and world growth. All inputs are in the form of 10-year averages across 5 years of historical data and 5 years of projection.

on account of the stronger projected path of import coverage of reserves, remittance inflows, and global growth.

Text Table 8. Kenya: Composite Indicator and Thresholds

Country	Kenya
Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 3.02	Medium 3.01	Medium 2.98

Note: The current-vintage Composite Indicator Index is based on the IMF's 2024 April World Economic Outlook and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.75	1.45	48%
Real growth rate (in percent)	2.719	4.90	0.13	4%
Import coverage of reserves (in percent)	4.052	38.81	1.57	52%
Import coverage of reserves^2 (in percent)	-3.990	15.06	-0.60	-20%
Remittances (in percent)	2.022	3.79	0.08	3%
World economic growth (in percent)	13.520	2.91	0.39	13%
CI Score			3.02	100%
CI rating			Medium	

23. Besides the six standardized stress tests, the analysis includes three tailored stress tests. The combined contingent liabilities stress test is described in paragraph 2 above and the natural disaster stress test is outlined in the Climate Change Risks section below. The market financing shock is applied to countries with market access, such as Kenya. It assesses rollover risks resulting from a deterioration in global risk sentiment, temporary nominal depreciation, and shortening of maturities of new external commercial borrowing.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

24. External debt burden indicators in terms of exports and revenues breach the respective thresholds under the baseline, giving rise to a mechanical high-risk signal (Table 1, Table 3, and Figure 1). The PV of PPG external debt-to-exports solvency indicator remains above the threshold (180 percent) through 2030, while the debt service-to-exports liquidity indicator exceeds its threshold (15 percent) through 2037. The external debt service-to-revenue ratio falls below the threshold (18 percent) starting in 2029. The solvency and liquidity indicators are on a gradual trend decline as exports recover and revenue measures yield results over the medium term. The PV of PPG external debt as a share of GDP remains well below the 40 percent indicative threshold throughout the projection period (Table 1 and Figure 1). Reflecting fiscal consolidation efforts and a borrowing mix that favors concessional borrowing, this solvency indicator is expected to decline from 30 percent in 2024 to 16 percent in 2044. The trajectories of external debt burden indicators are similar to those projected in the last DSA, with external debt service ratios deteriorated.

25. Standard stress test results highlight the sensitivity of debt burden indicators in terms of exports and exchange rate depreciation (Figure 1 and Table 3). Specifically, under the most extreme shock scenario (shock to export growth), the PV of debt-to-exports and the debt service-to-exports ratios breach the threshold over the entire medium-term projection period. Under the most extreme scenario involving a one-time depreciation, the debt service-to-revenue ratio can potentially breach the threshold through 2031.

26. The market financing pressures module ranks market liquidity risks as low (Figure 5). As of October 11, 2024, at 552 basis points, Kenya's EMBI spread was below the LIC-DSF threshold of 570 basis points. Gross financing needs are also below the threshold (14 percent of GDP) that indicates high risk. Delivering on the medium-term fiscal consolidation strategy would help keep gross financing needs below the threshold. As is the case with other emerging and frontier economies, financing risks are affected by global liquidity conditions. Persistent deterioration in global market conditions would exacerbate financing risks for Kenya. The shift in the deficit financing mix toward domestic resources calls for monitoring, given the elevated levels of domestic interest rates.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

27. The PV of total public debt-to-GDP ratio remains above the 55 percent benchmark through 2029 (Figure 2 and Table 2), giving rise to a mechanical high-risk signal. Public sector debt is projected to peak in 2025 at 64 percent of GDP (PV terms), followed by a steady decline, supported by medium-term fiscal consolidation driven by revenue mobilization measures.

28. Standard stress tests indicate that the PV of debt-to-GDP ratio is likely to remain above its indicative benchmark for most of the projection period under these scenarios (Figure 2 and Table 4). In the historical scenario, in which key variables are kept at their historical averages, public debt settles on an explosive trajectory, underscoring the importance of the authorities' ambitious reform agenda to reorient the economy to private-sector and export-oriented growth drivers and pursue a medium-term fiscal consolidation to durably reduce debt-related vulnerabilities. Under the most extreme standard shock scenario (primary balance shock), the PV of the public debt-to-GDP ratio would breach the applicable 55 percent benchmark for a country with medium debt-carrying capacity through 2040.

29. Domestic debt is high, with vulnerabilities rising. Kenya has historically benefitted from a deep domestic financial market and sophisticated investor base. However, against revenue underperformance and growing domestic financing needs recently, domestic debt vulnerabilities have increased, as reflected in high real domestic yields, declining maturities, and accumulation of pending bills and carryovers. Large and upcoming domestic debt maturities over the next twelve months raise domestic financing risks. Newly introduced LIC DSF Domestic Public Debt Indicators show that Kenya's domestic debt and domestic debt service will remain well above the median of the LIC DSF countries during the DSA projection horizon (Figure 6). Domestic debt service to revenues peaked in 2023 at 43 percent and is projected to remain there until 2025, driven in part by

large maturing domestic securities. The ratio falls toward 30 percent by 2030, still above the LIC median (Figure 6). More ambitious medium-term fiscal consolidation than envisaged at the previous DSA is projected to stabilize gross financing needs, leading to a decline in net domestic debt issuances and in the domestic debt to GDP ratio.

CLIMATE CHANGE RISKS

30. Kenya is highly vulnerable to climate change shocks, especially floods and droughts, which might affect debt dynamics. The total cost of climate change is estimated at 2–2.4 percent of GDP per year in Kenya.[30] This is largely due to the climate-sensitive nature of Kenya's economy, with agriculture, water, energy, tourism, and wildlife sectors playing an important role in it (see World Bank's Kenya Country Climate and Development Report for more details). Climate change can affect debt sustainability indicators through the negative impact on the fiscal position and balance of payments, short-term output losses from destruction of capital, and the possibility of long-term scarring from productivity losses in climate-sensitive economic activities, as well as inflationary pressures that can further erode purchasing power and increase poverty. Specifically:

- The expected increase in the frequency of natural disasters would destroy capital and reduce output in the short run and can have a long-term impact on the level of GDP (see results from the natural disaster stress test below). Climate change can disrupt agricultural activities, leading to reduced crop yields, livestock losses, and decreased agricultural productivity over the long run. This can hinder overall economic growth, contribute to food insecurity and rural poverty, and increase inflationary pressures from food prices.
- Government spending needs would rise with reconstruction costs and fiscal transfers to support those affected, while the disruptions of economic activities would simultaneously reduce government revenues. This would worsen fiscal deficits, which in the absence of corrective measures would translate into higher levels of public debt.
- The balance of payments will also be under pressure from the import component of reconstruction spending and terms-of-trade shocks stemming from price pressures in climate-sensitive economic activities (e.g., agriculture and tourism).

However, private and public spending on reconstruction also holds the promise of replacing obsolete production capacity with state-of-art technologies that can spur long-term growth. The current macro baseline does not explicitly model the effect of climate change, beyond the broad view on growth prospects of the economy, which embed the average effect of climate change in historical series.[31] The impact of climate change is, instead, accounted by a customized natural disaster stress test.

[30] National Policy for Disaster Management in Kenya, Government of Kenya, 2017.

[31] This reflect the fact that (i) quantifying the exact impact of climate change on economic variables is challenging due to the inherent uncertainty associated with climate models and the complex interactions between climate and economic systems; (ii) projecting the future economic impacts of climate change requires concerted effort to compile comprehensive data that will take time to put in practice.

31. A natural disaster stress test for Kenya illustrates the risks to debt sustainability of an extreme climate event. The standard natural disaster stress test is informed by the 2008–11 drought, which caused widespread losses and damages creating a need for recovery and reconstruction through public spending (estimated at US$1.8 billion), slowed real GDP growth by an average of 2.8 percent a year, and negatively affected tourism and agricultural exports (see Kenya: Post Disaster Needs Assessment). The calibration assumes US$1.8 billion increase in public debt, one-off 9 percentage points decline in real GDP growth, pro-rated from the 2008–11 precedent to account for the more diversified nature of the economy, and the standard 3.5 percentage points shock on exports growth (overall exports of goods and services grew over the 2008–11 episode). Results illustrate the very limited scope for meeting additional financing needs in the stress scenario with semi-concessional or commercial external financing without jeopardizing debt sustainability (see Tables 3 and 4). This highlights the need to expedite institutional reforms and capacity building to improve public investment efficiency, reduce leakages, and promote private climate investments.

32. Kenya's Nationally Determined Contribution (NDC) envisions 32 percent reduction in country's greenhouse gas emissions by 2030. In Kenya, more than 90 percent of electricity is generated from renewable sources (2024Q2: 90.9 percent). Kenya has also made significant strides in leveraging private climate finance through various channels—including PPPs in renewable energy projects, corporate green bond issuance, several blended finance mechanisms to de-risk private sector investments, and active engagement in global climate funds.

33. Achieving Kenya's ambitious climate objectives would require private sector participation and mobilization of additional tax revenues and concessional resources. Achieving Kenya's NDC pledge is estimated to entail climate-related investment needs of around 6 percent of GDP per year over 2023–30.[32] Some of these needs are addressed by existing investment projects, with the balance is expected to be met through a mix of private sector participation and highly concessional external financing.[33]

34. Debt sustainability risks from reaching the climate goals are assumed to be limited, as authorities' efforts, beyond making the existing investment pipeline more climate responsive, will be contingent on mobilizing additional, highly concessional, climate financing and private sector solutions supported by market incentives. The authorities continue to make good progress with implementation of the reform measures (RMs) under the IMF's Resilience and Sustainability Facility (RSF) arrangement. The implementation of reforms supported by the RSF arrangement would help achieve NDC pledges while safeguarding debt sustainability by: (i) incorporating climate risks into fiscal planning and investment framework; (ii) mobilizing climate revenue and strengthening the efficiency of climate spending; (iii) enhancing effectiveness of Kenya's existing frameworks to mobilize climate finance; and (iv) strengthening disaster risk

[32] See Kenya's Nationally Determined Contribution 2020–30

[33] For example, active World Bank lending operations with more than 20 percent climate co-benefits include "Off-grid Solar Access Project for Underserved Counties", "Climate Smart Agriculture Project", "Financing Locally Led Climate Action Program", "Additional Financing for Coastal Region Water Security and Climate Resilience Project", "Kenya Urban Support Program", etc.

reduction and management. By supporting enhancements in Kenya's public financial management framework and improvements in public investment efficiency, RSF-related reform measures will help Kenya make public investment more climate responsive. They would also provide strong signal to investors, support establishing a pipeline of bankable projects, and accelerate mobilization of private financing.[34]

RISK RATING AND VULNERABILITIES

35. Kenya's overall and external public debts are sustainable but remain at high risk of debt distress; the assessment being finely balanced and contingent on successful and timely delivery of the multi-year fiscal consolidation and achievement of robust export growth in the medium term. The mechanical risk signals indicate sustained breaches of sustainability thresholds by solvency and liquidity indicators under the baseline scenario—the PV of external debt-to-exports and external debt service-to-exports ratios, as well as the PV of overall public debt-to-GDP ratio.

36. A number of additional considerations mitigate risks to debt sustainability, supporting the analysis:

- On tax revenues, a commitment to taking corrective actions should the Supreme Court upholds the unconstitutionality ruling on the 2023 Finance Act.
- The consistently strong performance of remittances, which supports external sustainability, paired with a favorable outlook for exports that will be supported by strong policy measure to boost export competitiveness.
- External debt service indicator is on a clear declining trajectory, which authorities plan to further optimize if market conditions are favorable.
- Close attention to evaluating risks at SOEs and the commitment under the IMF-supported EFF/ECF arrangements to limit the impact on the deficit of any fiscal support (e.g., via offsets).
- Ongoing efforts to strengthen fiscal sustainability under the SDFP by rationalizing public investments on the basis of rigorous criteria.
- Climate adaptation and mitigation strategies, with focus on water management, agriculture and food security, ecosystem conservation, disaster risk reduction, sustainable energy transition, climate information and research, health and human security, and education and awareness can help curb and cushion climate risks, limiting the impact on debt ratios.
- Improved efficiency investment in infrastructure will raise growth and export potential, both of which will support Kenya's external debt sustainability.

[34] For example, the National Green Fiscal Incentives Policy Framework, adopted in December 2023, which sets out options for promoting low-carbon, climate resilient, and environmentally sustainable practices, could be used to promote climate-friendly investments, including carbon pricing and electric and hybrid modes of transportation.

37. The authorities committed to deliver a fiscal consolidation in line with the program that significantly surpasses the debt-stabilizing primary balance. Debt would begin declining as a share of GDP starting in 2027. Indicators measured against exports will also gradually improve as the recovery of exports takes hold and reforms under the IMF-supported EFF/ECF arrangements and the World Bank DPO enhance competitiveness. Given the magnitude of mechanical threshold breaches under the baseline, consolidation efforts would need to be sustained over the medium term to restore fiscal space and reduce debt-related risks. Of note:

- While the PV of total public debt-to-GDP ratio remains above the indicative threshold (55 percent), the authorities' commitment to medium-term fiscal consolidation safeguards debt sustainability. Despite recent setbacks, the approval of the Supplementary FY2024/25 Budget with further expenditure cuts following the withdrawal of the 2024 Finance Bill and consideration of new revenue measures to offset spending pressures that have materialized since points to authorities' continued commitment to contain debt build up.
- Kenya's PV of external debt as a share of GDP is well below the 40 percent indicative threshold and will gradually decline over time. Kenya's external debt indicators are expected to gradually improve as fiscal consolidation progresses, exports recover as the global shocks dissipate, and Kenya makes progress to unlock its substantial export potential.
- Kenya's borrowing plan relies on a balanced mix of commercial and concessional financing that contributes to reducing debt risks, supported by limits on the government's external borrowing under the EFF/ECF program and PPAs under the SDFP, which also support steps to improve debt transparency.

38. Debt sustainability is also supported by stable and strong remittances, manageable and steadily declining gross financing needs, and the authorities' commitment to insulate the public sector balance sheet from SOE-related contingent liabilities. While the protracted breaches of most debt burden indicators are a source of concern, there are mitigating factors that help support the debt sustainability assessment. The gross financing needs beyond 2024 are on a clear declining trajectory over the projection period, signaling a strengthening in debt servicing capacity. The authorities' commitment to absorb the fiscal costs associated with materialization of SOE-related contingent liabilities with a limited impact on the programmed fiscal envelope will help avoid further deterioration in the public sector balance sheet. Stable and strong remittances, amounting to 33 percent of exports of goods and services in 2023, would also continue to be an important source for foreign currency receipts going forward.

39. Strong reform measures could help Kenya elevate its debt carrying capacity, improving debt outlook and assessment significantly. Kenya is currently assessed to have a medium debt carrying capacity with a CI score of 3.02, which has increased from 3.01 in the previous DSA. This is slightly below the 3.05 required to be upgraded to a strong capacity category with correspondingly higher debt burden thresholds. As the authorities embark on strong policy measures and structural reforms especially on the PFM front this could help increase its CPIA and CI scores, further mitigating risks to debt sustainability in coming years. To this end, the authorities' EFF/ECF program incorporates two reforms—PFM measures for avoiding future accumulation of

expenditure arrears and a medium-term strategy to strengthening revenue administration—as well as several ongoing measures to improve budgeting process, fiscal risk management, and fiscal transparency. Combined with implementing the new PFM reform strategy 2023–28, these measures will strengthen budget credibility and expenditure efficiency.

40. Risks to the baseline increased notably as the socio-political context have rendered delivery of the required fiscal adjustment more challenging. The current assessment is subject to elevated risks from domestic policy slippages and further fiscal or exports underperformance could render sustainability assessment infeasible:

- **On the domestic front, there is very narrow scope for deviation, while executing policy commitments has become more challenging in the current socio-political context.** In the absence of medium-term revenue and spending measures offsetting the impact of the withdrawn 2024 Finance Bill, ensuring debt sustainability might not be feasible. However, the risks to implementation of fiscal measures and creating socio-political buy-in for a revenue-based fiscal consolidation are significantly elevated. Even with the strong commitment by authorities to fiscal consolidation, there is a risk for slippage.
- **Further exports underperformance would pose external sustainability risks.** Kenya faces large annual external debt service obligations, averaging US$4.7 billion annually over the medium-term, while weaker export performance weighs on debt servicing capacity. Exports could underperform the baseline on account of i) lower demand from major economies due to shocks or policy measures (e.g., miscalibration of monetary policy); ii) delays in domestic structural reforms needed to support medium-term export growth, and iii) recent rapid appreciation of the shilling. Domestic political risks or any deterioration in the security situation could disrupt trade and tourism. Should those risks materialize Kenya's external debt sustainability would be jeopardized.
- **Kenya is exposed to heightened risks to the global outlook through international trade and financing channels.** Intensification of spillovers from global geopolitical conflicts could drive persistent investor concerns about the prospects of frontier economies and increase the cost of financing.
- **Domestic government bond holdings by pension funds and commercial banks expose the economy to feedback between sovereign and financial sector risks**, while the need to rollover maturing external commercial debt exposes the country to risks from a liquidity squeeze. Finally, crowding-in effect of the fiscal consolidation into private sector growth might take longer to materialize.

AUTHORITIES' VIEWS

41. The authorities broadly agreed with IMF staff's assessment, emphasizing that addressing elevated debt vulnerabilities remain key policy priority. They reaffirmed their commitment to arresting debt buildup and meeting the medium-term debt anchor, as reflected in the approval of the Supplementary FY2024/25 Budget with additional spending cuts following the

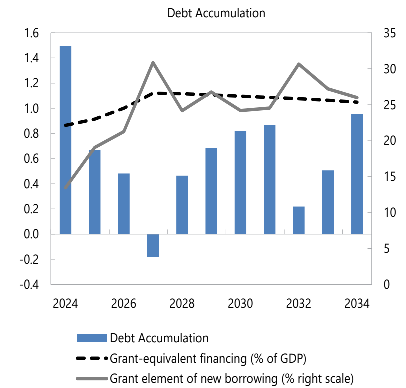
withdrawal of the 2024 Finance Bill. Prioritizing concessional financing in the immediate term until market conditions allow borrowing at reasonable costs remains a key element of the financing strategy. In coordination with Kenya's multilateral and bilateral development partners, the authorities are also exploring new financing instruments, including sustainability linked bonds and credit enhancements to support debt sustainability. On the domestic front, the authorities are taking measures to eradicate impediments to efficient intermediation and market development supported by the IMF's technical assistance, while building a diverse and resilient investor base to ensure stable and less costly financing. The authorities emphasized their determination to extend the maturity of domestic debt and pursue a financing strategy that balances domestic issuance and external financing, avoiding crowding out domestic private sector and accumulation of domestic arrears. The authorities also highlighted significant remittances inflows as a stable source of foreign exchange that increases Kenya's debt repayment capacity but is not directly captured by the DSA metrics.

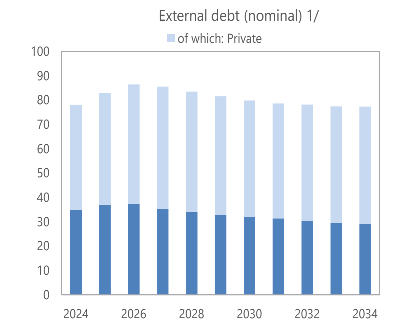
Table 1. Kenya: External Debt Sustainability Framework, Baseline Scenario, 2021–44

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	70.3	71.7	84.2	78.1	82.9	86.5	85.5	83.5	81.6	77.4	72.5	62.6	80.9
of which: public and publicly guaranteed (PPG)	34.7	34.6	40.4	34.8	37.0	37.4	35.3	33.9	32.8	29.0	21.3	30.0	33.0
Change in external debt	-1.4	1.4	12.4	-6.1	4.8	3.6	-0.9	-2.0	-1.9	0.0	-2.6		
Identified net debt-creating flows	-0.7	1.9	8.0	-0.5	-0.8	-1.1	-1.1	-1.1	-1.1	-1.2	-1.8	2.3	-1.0
Non-interest current account deficit	4.1	4.0	2.5	2.4	2.1	2.2	2.3	2.4	2.5	2.6	2.5	4.7	2.4
Deficit in balance of goods and services	9.1	9.2	8.7	8.1	8.1	8.4	8.5	8.5	8.4	8.2	7.6	9.5	8.3
Exports	10.8	12.1	11.7	10.9	11.7	12.8	13.3	13.5	13.8	14.8	16.5		
Imports	19.9	21.3	20.4	19.0	19.8	21.2	21.7	21.9	22.1	23.0	24.1		
Net current transfers (negative = inflow)	-5.6	-5.7	-6.5	-6.1	-6.5	-6.8	-6.8	-6.8	-6.7	-6.7	-6.7	-5.3	-6.6
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1		
Other current account flows (negative = net inflow)	0.5	0.5	0.2	0.4	0.5	0.6	0.6	0.7	0.8	1.1	1.6	0.5	0.8
Net FDI (negative = inflow)	0.0	-0.3	-0.2	-0.6	-0.8	-1.0	-1.1	-1.2	-1.3	-1.6	-2.0	-0.6	-1.2
Endogenous debt dynamics 2/	-4.7	-1.8	5.8	-2.3	-2.1	-2.3	-2.3	-2.2	-2.2	-2.2	-2.4		
Contribution from nominal interest rate	1.2	1.0	1.5	1.5	1.9	1.9	1.9	1.7	1.7	1.4	1.1		
Contribution from real GDP growth	-5.0	-3.3	-4.2	-3.8	-3.9	-4.2	-4.1	-4.0	-3.9	-3.6	-3.5		
Contribution from price and exchange rate changes	-0.8	0.5	8.5	...	...	...	...	...	...	...	...		
Residual 3/	-0.7	-0.5	4.4	-5.6	5.5	4.7	0.2	-0.9	-0.8	1.2	-0.8	3.0	0.4
of which: exceptional financing	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	32.1	29.8	30.4	31.0	29.5	28.1	26.8	22.5	16.2		
PV of PPG external debt-to-exports ratio	...	...	274.8	274.2	260.2	241.9	222.3	208.1	195.0	152.5	98.1		
PPG debt service-to-exports ratio	22.5	21.4	26.9	40.5	31.9	29.8	27.3	27.0	22.0	16.7	11.6		
PPG debt service-to-revenue ratio	14.6	15.4	18.8	25.2	20.6	20.4	18.9	18.6	15.5	12.6	9.8		
Gross external financing need (Million of U.S. dollars)	28,119	28,949	27,855	31,173	30,994	31,939	32,637	34,026	34,452	40,222	60,711		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.6	4.9	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	5.0
GDP deflator in US dollar terms (change in percent)	1.2	-0.7	-10.6	7.3	-4.5	-5.2	-0.6	1.8	2.1	1.2	2.7	1.2	0.7
Effective interest rate (percent) 4/	1.8	1.5	2.0	2.0	2.4	2.3	2.3	2.2	2.2	1.9	1.6	2.0	2.1
Growth of exports of G&S (US dollar terms, in percent)	21.8	17.2	-8.9	4.9	7.8	9.2	8.2	8.5	9.3	7.3	8.2	2.0	7.9
Growth of imports of G&S (US dollar terms, in percent)	23.3	11.7	-9.7	5.0	4.5	6.6	7.0	7.9	8.1	6.3	7.1	2.7	6.8
Grant element of new public sector borrowing (in percent)	...	...	...	13.5	19.1	21.3	30.9	24.2	26.8	26.0	29.3	...	24.4
Government revenues (excluding grants, in percent of GDP)	16.5	16.9	16.8	17.5	18.1	18.8	19.2	19.5	19.6	19.6	19.5	17.0	19.1
Aid flows (in Million of US dollars) 5/	1,784	1,730	1,661	1,891	1,882	2,120	2,867	3,037	3,212	4,098	4,783		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.9	0.9	1.0	1.1	1.1	1.1	1.0	0.7	...	1.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	16.7	24.5	27.2	37.8	30.3	33.4	32.9	41.6	...	30.6
Nominal GDP (Million of US dollars)	109,875	114,449	108,039	121,769	122,196	121,677	126,983	135,752	145,470	197,974	371,090		
Nominal dollar GDP growth	8.9	4.2	-5.6	12.7	0.4	-0.4	4.4	6.9	7.2	6.2	7.8	5.9	5.7
Memorandum items:													
PV of external debt 7/	...	...	75.9	73.1	76.3	80.1	79.8	77.6	75.6	70.8	67.4		
In percent of exports	...	...	649.6	672.3	653.3	625.1	600.4	575.8	549.6	479.8	407.7		
Total external debt service-to-exports ratio	199.6	173.2	197.6	207.7	192.3	179.2	168.0	159.1	144.8	109.2	72.1		
PV of PPG external debt (in Million of US dollars)			34,700	36,315	37,129	37,719	37,495	38,085	39,014	44,593	60,208		
(PVt-PVt-1)/GDPt-1 (in percent)				1.5	0.7	0.5	-0.2	0.5	0.7	1.0	0.0		
Non-interest current account deficit that stabilizes debt ratio	5.4	2.6	-10.0	8.5	-2.7	-1.3	3.2	4.4	4.4	2.6	5.1		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

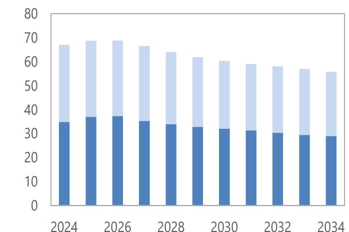
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	68.1	67.8	73.1	67.0	68.8	68.8	66.6	64.1	61.9	55.8	40.4	58.4	62.5
of which: external debt	34.7	34.6	40.4	34.8	37.0	37.4	35.3	33.9	32.8	29.0	21.3	30.0	33.0
	33.47	33.16	32.73	32.20	31.77	31.43	31.26	30.12	29.04	26.76	19.14		
Change in public sector debt	0.3	-0.3	5.3	-6.1	1.7	0.0	-2.2	-2.5	-2.2	-1.2	-2.1		
Identified debt-creating flows	1.1	1.6	6.9	-1.4	-1.6	-1.8	-2.2	-2.4	-2.1	-1.3	-1.9	3.2	-1.7
Primary deficit	2.7	1.4	0.6	-0.6	-1.5	-1.8	-2.3	-2.5	-2.0	-0.6	-0.2	3.1	-1.4
Revenue and grants	16.8	17.1	16.9	17.7	18.4	19.0	19.5	19.8	19.9	19.9	19.8	17.2	19.4
of which: grants	0.3	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3		
Primary (noninterest) expenditure	19.5	18.5	17.5	17.1	16.9	17.2	17.3	17.3	17.9	19.2	19.6	20.3	18.0
Automatic debt dynamics	-1.7	0.2	6.3	-0.8	-0.1	0.0	0.1	0.0	-0.1	-0.7	-1.7		
Contribution from interest rate/growth differential	-2.9	-2.7	1.0	-0.8	-0.1	0.0	0.1	0.0	-0.1	-0.7	-1.7		
of which: contribution from average real interest rate	1.8	0.4	4.6	2.7	3.1	3.3	3.3	3.2	2.9	2.0	0.3		
of which: contribution from real GDP growth	-4.8	-3.2	-3.6	-3.5	-3.2	-3.3	-3.3	-3.2	-3.0	-2.7	-2.0		
Contribution from real exchange rate depreciation	1.3	2.9	5.3	...	...	...	...	...	...	...	...		
Denominator = 1+g	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.7	-1.9	-1.6	-4.7	3.3	1.8	0.0	0.0	-0.1	0.2	-0.2	0.1	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	68.7	63.0	64.0	63.7	61.2	58.6	56.2	49.7	35.5		
PV of public debt-to-revenue and grants ratio	...	...	406.2	356.2	348.4	334.3	313.8	296.0	282.9	249.9	179.4		
Debt service-to-revenue and grants ratio 3/	55.2	56.0	60.6	63.7	62.5	61.4	58.1	55.7	49.0	47.1	29.4		
Gross financing need 4/	12.0	11.0	10.9	10.6	10.0	9.9	9.1	8.6	7.7	8.7	5.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.6	4.9	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	5.0
Average nominal interest rate on external debt (in percent)	3.1	3.0	3.7	3.7	4.2	3.9	3.9	3.7	3.7	3.2	2.6	3.1	3.6
Average real interest rate on domestic debt (in percent)	7.6	5.1	6.4	7.1	7.6	8.6	8.7	8.6	8.2	6.3	0.9	5.5	7.7
Real exchange rate depreciation (in percent, + indicates depreciation)	3.9	9.3	14.9	...	...	...	...	...	...	...	...	2.1	...
Inflation rate (GDP deflator, in percent)	4.2	6.8	6.1	4.5	5.0	4.9	4.9	4.8	4.9	4.9	5.8	6.1	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	3.0	-0.8	0.2	2.3	4.1	6.8	5.2	5.4	8.4	5.5	4.3	2.8	5.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.4	1.7	-4.7	5.47	-3.2	-1.9	0.0	0.0	0.2	0.5	1.9	-0.2	0.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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



Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2024–34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to GDP Ratio											
Baseline	30	30	31	30	28	27	26	25	24	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	30	31	33	34	36	37	40	**42**	**43**	**44**	**46**
B. Bound Tests											
B1. Real GDP growth	30	32	33	32	30	29	28	27	26	25	24
B2. Primary balance	30	32	37	36	35	33	33	32	31	30	30
B3. Exports	30	32	37	35	34	32	31	30	29	28	27
B4. Other flows 3/	30	33	36	34	33	31	30	29	28	27	26
B5. Depreciation	30	39	35	34	32	30	29	28	27	26	26
B6. Combination of B1-B5	30	35	37	36	34	33	32	31	29	28	27
C. Tailored Tests											
C1. Combined contingent liabilities	30	34	35	34	32	31	31	30	29	29	28
C2. Natural disaster	30	35	37	36	35	35	35	35	35	35	35
C3. Commodity price	30	30	31	30	28	27	26	25	24	23	23
C4. Market Financing	30	34	35	33	32	30	29	28	27	26	25
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of Debt-to-Exports Ratio											
Baseline	**274**	**260**	**242**	**222**	**208**	**195**	**184**	175	164	157	153
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**274**	**269**	**257**	**255**	**264**	**273**	**282**	**290**	**295**	**303**	**312**
B. Bound Tests											
B1. Real GDP growth	**274**	**260**	**242**	**222**	**208**	**195**	**184**	175	164	157	153
B2. Primary balance	**274**	**276**	**290**	**272**	**257**	**243**	**232**	**224**	**214**	**208**	**204**
B3. Exports	**274**	**328**	**411**	**380**	**358**	**336**	**319**	**302**	**283**	**269**	**259**
B4. Other flows 3/	**274**	**279**	**280**	**259**	**243**	**229**	**217**	**205**	**192**	**183**	176
B5. Depreciation	**274**	**260**	**216**	**197**	**184**	172	162	154	145	139	136
B6. Combination of B1-B5	**274**	**321**	**275**	**324**	**305**	**287**	**272**	**258**	**242**	**230**	**222**
C. Tailored Tests											
C1. Combined contingent liabilities	**274**	**288**	**273**	**254**	**240**	**227**	**218**	**210**	**201**	**196**	**192**
C2. Natural disaster	**274**	**285**	**272**	**257**	**247**	**238**	**233**	**229**	**225**	**225**	**226**
C3. Commodity price	**274**	**260**	**242**	**222**	**208**	**195**	**184**	175	164	157	153
C4. Market Financing	**274**	**260**	**242**	**223**	**209**	**196**	**185**	175	164	157	152
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt Service-to-Exports Ratio											
Baseline	**40**	**32**	**30**	**27**	**27**	**22**	**22**	**21**	**20**	**19**	**17**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**40**	**30**	**27**	**26**	**26**	**23**	**24**	**24**	**25**	**26**	**25**
B. Bound Tests											
B1. Real GDP growth	**40**	**32**	**30**	**27**	**27**	**22**	**22**	**21**	**20**	**19**	**17**
B2. Primary balance	**40**	**32**	**31**	**30**	**30**	**25**	**25**	**24**	**24**	**23**	**21**
B3. Exports	**40**	**38**	**44**	**42**	**41**	**34**	**34**	**33**	**33**	**32**	**28**
B4. Other flows 3/	**40**	**32**	**31**	**29**	**28**	**23**	**24**	**23**	**23**	**22**	**19**
B5. Depreciation	**40**	**32**	**30**	**26**	**26**	**21**	**21**	**20**	**18**	**18**	15
B6. Combination of B1-B5	**40**	**36**	**40**	**37**	**36**	**30**	**30**	**29**	**29**	**28**	**24**
C. Tailored Tests											
C1. Combined contingent liabilities	**40**	**32**	**31**	**29**	**28**	**23**	**24**	**22**	**21**	**21**	**18**
C2. Natural disaster	**40**	**33**	**31**	**29**	**29**	**24**	**24**	**23**	**23**	**22**	**20**
C3. Commodity price	**40**	**32**	**30**	**27**	**27**	**22**	**22**	**21**	**20**	**19**	**17**
C4. Market Financing	**40**	**32**	**30**	**28**	**27**	**22**	**26**	**25**	**19**	**16**	**16**
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt Service-to-Revenue Ratio											
Baseline	**25**	**21**	**20**	**19**	**19**	15	16	15	15	15	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**25**	**19**	**19**	18	**18**	16	17	18	**19**	**20**	**19**
B. Bound Tests											
B1. Real GDP growth	**25**	**21**	**22**	**20**	**20**	17	17	16	16	16	14
B2. Primary balance	**25**	**21**	**21**	**21**	**21**	17	18	17	18	18	16
B3. Exports	**25**	**21**	**21**	**20**	**20**	17	17	17	17	17	15
B4. Other flows 3/	**25**	**21**	**21**	**20**	**20**	16	17	17	17	17	14
B5. Depreciation	**25**	**26**	**26**	**23**	**23**	**19**	**20**	**18**	17	17	14
B6. Combination of B1-B5	**25**	**21**	**23**	**21**	**21**	18	**18**	18	18	17	15
C. Tailored Tests											
C1. Combined contingent liabilities	**25**	**21**	**21**	**20**	**20**	16	17	16	16	16	14
C2. Natural disaster	**25**	**21**	**21**	**19**	**19**	16	17	16	16	16	14
C3. Commodity price	**25**	**21**	**20**	**19**	**19**	15	16	15	15	15	13
C4. Market Financing	**25**	**21**	**20**	**19**	**19**	16	**18**	**18**	14	12	12
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Table 4. Kenya: Sensitivity Analysis for Key Indicators of Public Debt, 2024–34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	**63**	**64**	**64**	**61**	**59**	**56**	55	53	52	51	50
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**63**	**68**	**72**	**73**	**75**	**77**	**79**	**80**	**82**	**84**	**85**
B. Bound Tests											
B1. Real GDP growth	**63**	**67**	**71**	**69**	**68**	**67**	**67**	**66**	**67**	**67**	**67**
B2. Primary balance	**63**	**70**	**77**	**75**	**72**	**70**	**68**	**67**	**66**	**65**	**63**
B3. Exports	**63**	**66**	**69**	**67**	**64**	**61**	**60**	**58**	**57**	**55**	54
B4. Other flows 3/	**63**	**66**	**69**	**66**	**63**	**61**	**59**	**58**	**56**	55	53
B5. Depreciation	**63**	**66**	**64**	**60**	**56**	52	49	47	44	42	40
B6. Combination of B1-B5	**63**	**67**	**73**	**71**	**68**	**65**	**64**	**62**	**61**	**60**	**58**
C. Tailored Tests											
C1. Combined contingent liabilities	**63**	**74**	**73**	**71**	**68**	**66**	**64**	**63**	**62**	**61**	**59**
C2. Natural disaster	**63**	**76**	**77**	**76**	**75**	**74**	**74**	**75**	**75**	**76**	**76**
C3. Commodity price	**63**	**65**	**65**	**64**	**63**	**62**	**61**	**61**	**62**	**62**	**62**
C4. Market Financing	**63**	**64**	**64**	**61**	**59**	**56**	55	53	52	51	50
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	356	348	334	314	296	283	275	267	262	256	250
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	356	369	376	376	380	387	395	403	413	421	428
B. Bound Tests											
B1. Real GDP growth	356	365	370	355	343	336	334	334	335	336	337
B2. Primary balance	356	378	405	383	365	351	343	336	331	325	319
B3. Exports	356	358	363	342	323	309	300	292	285	277	270
B4. Other flows 3/	356	361	361	339	320	307	298	290	283	275	268
B5. Depreciation	356	358	336	309	284	264	249	235	224	212	200
B6. Combination of B1-B5	356	364	383	362	343	329	320	313	307	300	293
C. Tailored Tests											
C1. Combined contingent liabilities	356	400	385	364	345	332	324	317	311	305	299
C2. Natural disaster	356	412	405	391	379	374	374	375	378	380	383
C3. Commodity price	356	352	344	329	317	311	309	309	311	312	313
C4. Market Financing	356	348	334	314	297	284	275	268	262	256	250
Debt Service-to-Revenue Ratio											
Baseline	64	62	61	58	56	49	47	46	47	48	47
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	64	62	64	62	61	57	57	58	62	66	68
B. Bound Tests											
B1. Real GDP growth	64	65	67	65	63	56	55	56	58	61	61
B2. Primary balance	64	62	69	70	64	56	57	59	61	63	60
B3. Exports	64	62	62	59	57	50	48	48	49	50	49
B4. Other flows 3/	64	62	62	59	57	50	48	48	49	50	49
B5. Depreciation	64	60	61	57	55	48	46	45	45	46	44
B6. Combination of B1-B5	64	61	65	67	61	54	53	54	55	56	54
C. Tailored Tests											
C1. Combined contingent liabilities	64	62	73	64	61	54	56	56	56	58	54
C2. Natural disaster	64	68	74	69	67	60	61	63	65	68	67
C3. Commodity price	64	62	62	60	58	52	51	52	54	56	57
C4. Market Financing	64	62	62	58	56	49	50	49	46	46	46

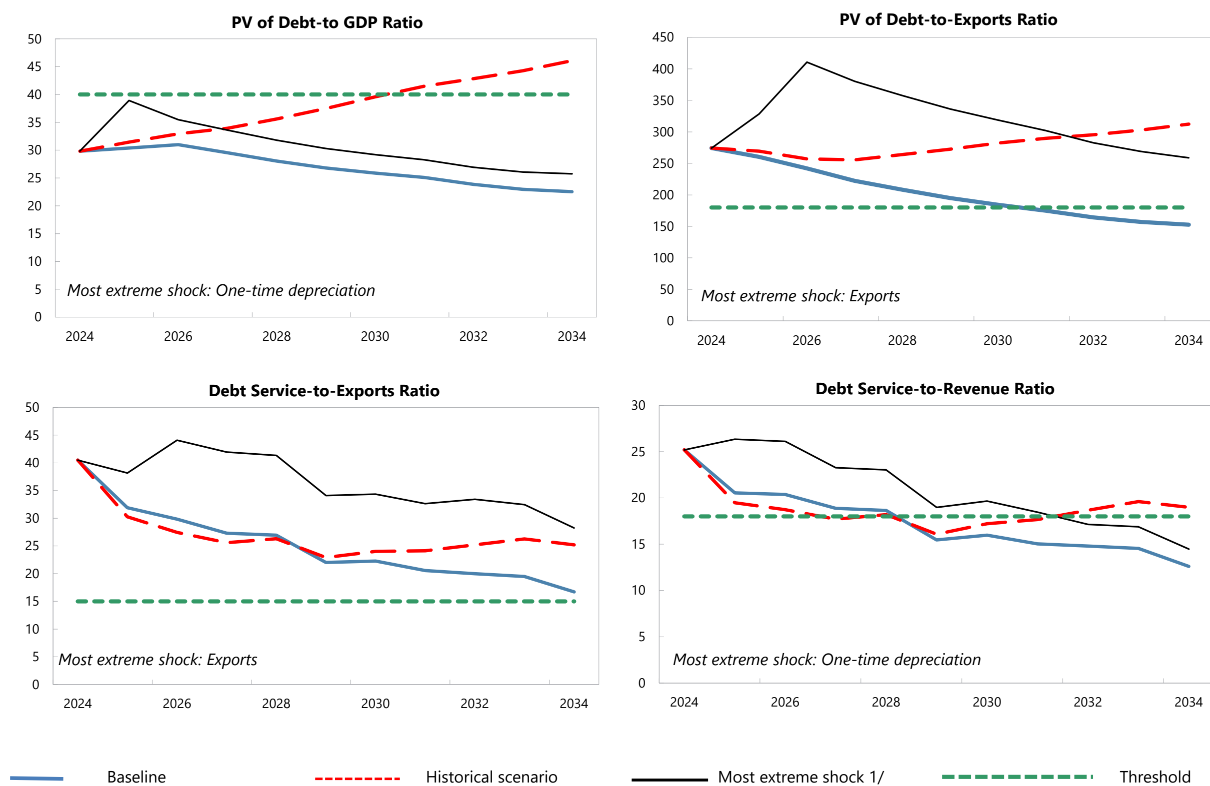
Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Figure 1. Kenya: Indicators of Public and Publicity Guaranteed External Debt Under Alternatives Scenarios, 2024–34



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	Yes	Yes
Commodity price	No	No
Market financing	No	No

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

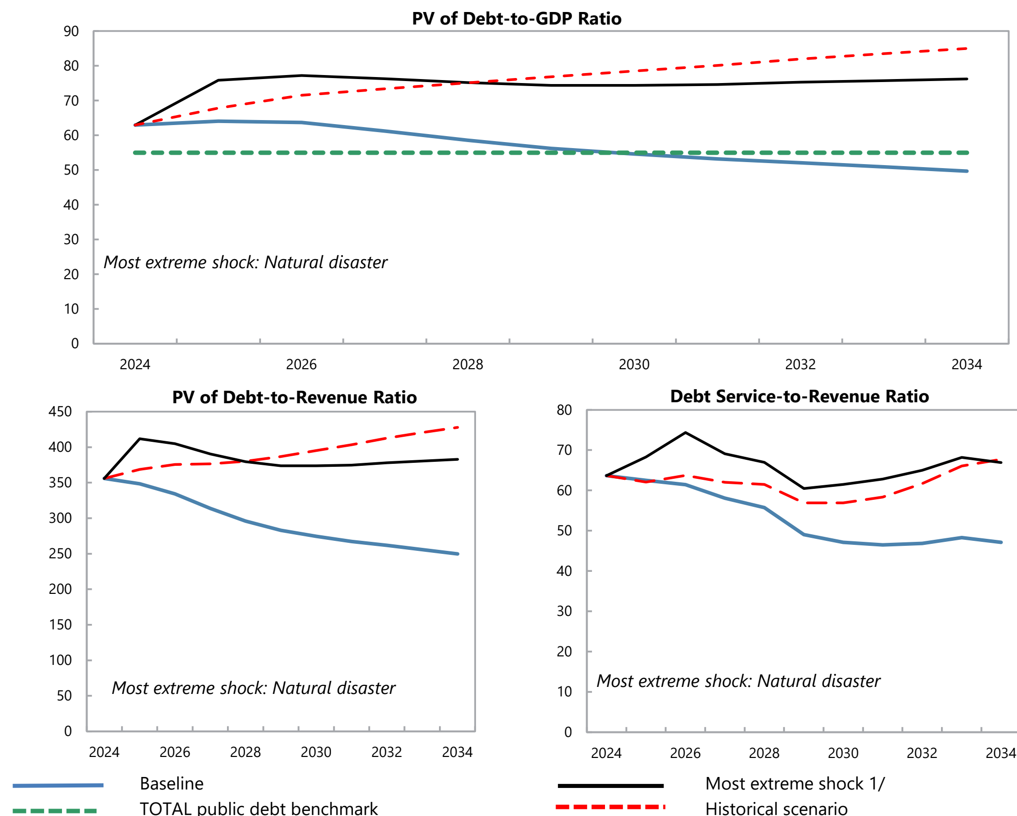
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Kenya: Indicators of Public Debt Under Alternative Scenarios, 2024–34



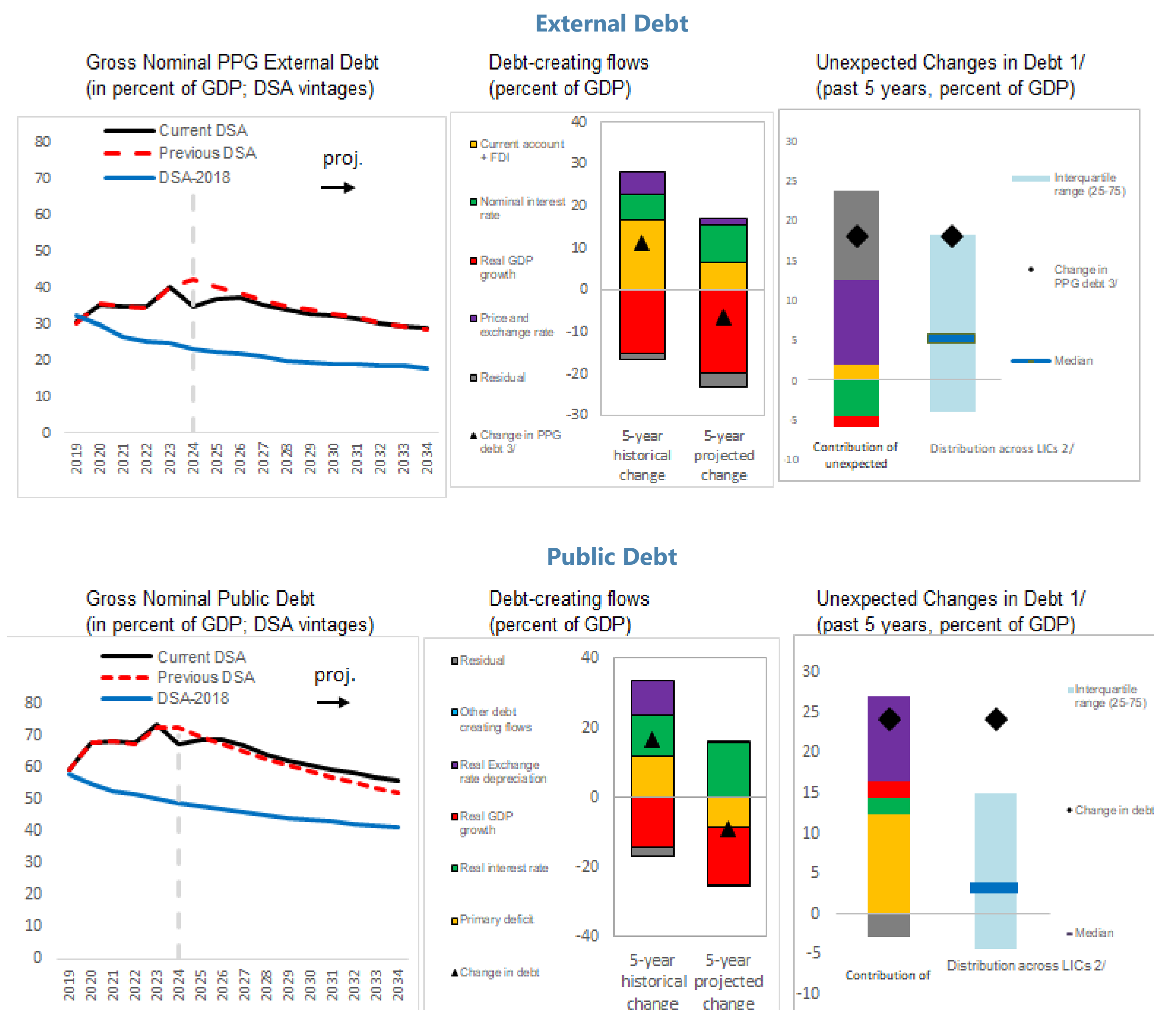
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	36%	36%
Domestic medium and long-term	48%	48%
Domestic short-term	16%	16%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	7.9%	7.9%
Avg. maturity (incl. grace period)	8	8
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	5.6%	5.6%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



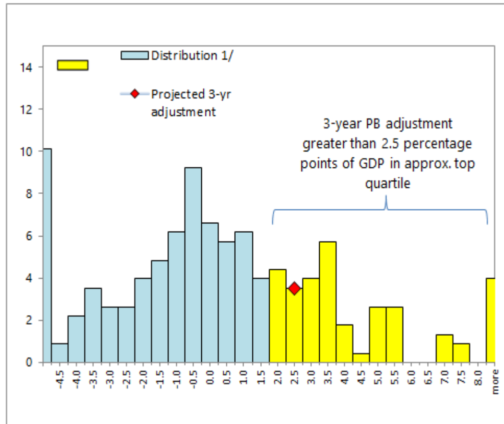
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

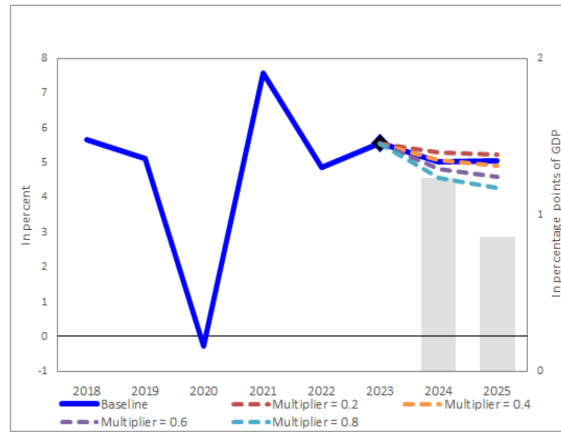
Figure 4. Kenya: Realism Tools

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



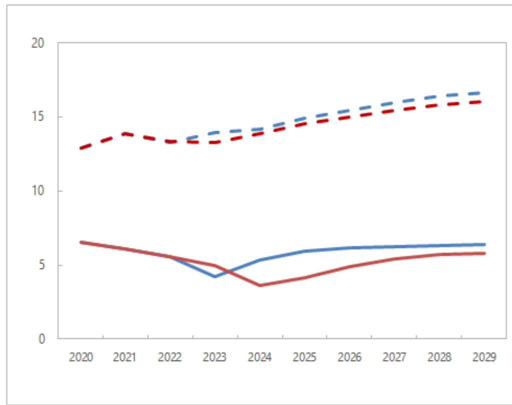
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



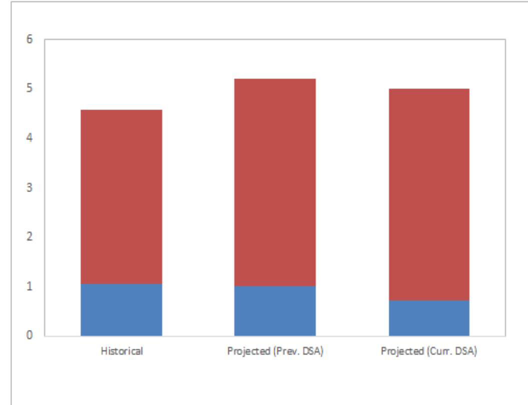
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Gov. Invest. - Prev. DSA
Gov. Invest. - Curr. DSA
Priv. Invest. - Prev. DSA
Priv. Invest. - Curr. DSA

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

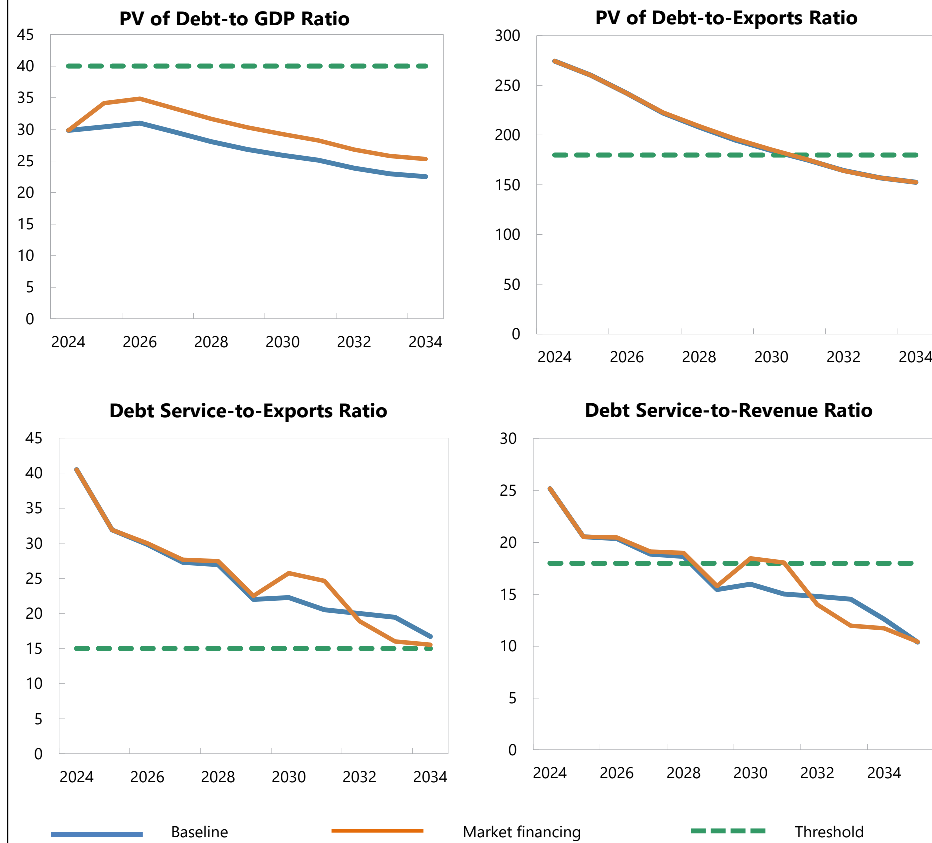


Contribution of other factors
Contribution of government capital

Figure 5. Kenya: Market-Financing Risk Indicators

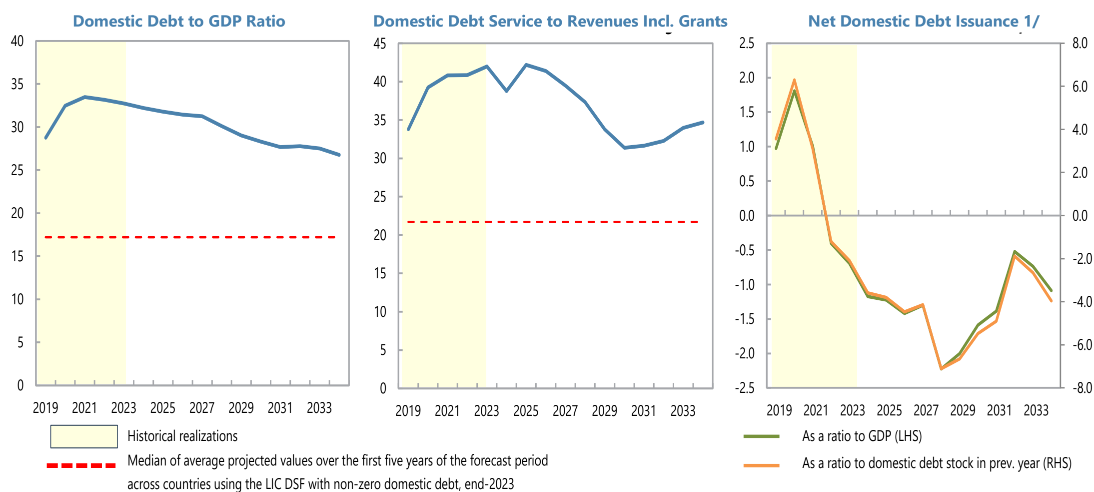
	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	11	552
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to data available as of October 11, 2024.



Sources: Country authorities; and staff estimates and projections.

Figure 6. Kenya: Indicators of Domestic Public Debt, 2019–34



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	75%
Short-term	25%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	7.9%
Avg. maturity (incl. grace period)	8
Avg. grace period	4
Domestic short-term debt	
Avg. real interest rate	5.6%

Sources: Country authorities; and staff estimates and projections.

1/ Net Domestic Debt Issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments, and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

INTERNATIONAL MONETARY FUND

KENYA

October 18, 2024

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR REDUCTION OF ACCESS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR REPHASING OF ACCESS UNDER THE ARRANGEMENTS, MODIFICATIONS OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

WORLD BANK ASSESSMENT LETTER UPDATE FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This letter updates the World Bank's assessment of Kenya's climate policies and commitments provided in December 2023 (Annex 1), highlighting relevant changes that have occurred since subsequent update to that assessment.[1]

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs for the Country Arising from Climate Change Vulnerabilities

1. **Increasing rains and floods in Kenya underscore Kenya's vulnerability to climate change. The country experienced warmer-than-average temperatures in early 2024, in the context of abnormal global weather conditions.**[2] The forecast for March–May 2024 predicted above-average rainfall in most parts of the country, which could extend to June to June before the cold season begins.[3] Since the last week of March, heavy rains and floods have affected many parts of the country, characterized by increased water levels in rivers,

[1] Original assessment: World Bank Assessment Letter for the IMF Program under the Resilience and Sustainability Trust (RSF)—Kenya, IDA/SecM2023-0168, June 28, 2023. Update: World Bank Assessment Letter Update for the IMF Program under the Resilience and Sustainability Facility (RSF)—Kenya Climate Change Policies, IDA/SecM2023-0282, December 22, 2023.

[2] For example, temperatures rose by 6°C above the normal temperatures in Nairobi.

[3] Kenya Meteorological Department, Ministry of Environment, Climate Change, and Forestry. 2024. https://meteo.go.ke/sites/default/files/forecast/seasonal-forecast/MAM_2024_Forecast.pdf and https://meteo.go.ke/forecast/monthly-forecast).

infrastructural damages, livestock and property losses, and restricted access to population centers.[4] Early statistics shows that more than 13 people have died and nearly 20,000 people—nearly 4,000 households—have been affected by adverse weather conditions, including an estimate of 15,000 being displaced due to heavy rains and flash floods during March and April 2024.[5]

B. Government Policies and Commitments for Climate Change Adaptation and Priority Areas to Strengthen Resilience

2. The Government of Kenya (GoK) approved the National Forest Policy in late 2023. The policy provides a framework for improved forest governance, resource allocation, monitoring and evaluation, partnerships, and collaborations between national, county governments and non-state actors. It strengthens the engagement of local communities in management and conservation and enhances the role of forestry in climate change response, including for climate adaptation. More sustainable land use practices are expected to restore degraded forests. In addition, the GoK is developing the National Landscape and Ecosystem Restoration Strategy, which contributes to Kenya's commitment to restore 5.1 million hectares of degraded land by 2030 and 10.6 million hectares of degraded forests and rangelands by 2032.

3. Climate shocks disproportionately affect the poor and the Kenyan government is strengthening the social protection system, which will also help reduce climate vulnerabilities by improving targeting, the generosity of the benefits, and prepare for enhanced climate adaptation and mitigation policies. To this end, the government is advancing a new Social Protection Bill, which mandates national and county governments to use the Enhanced Single Registry (ESR) as the national targeting system and which scales up emergency cash transfers to households affected by climate and other shocks. In addition, the government is also advancing its Shirika Plan, which will provide better access to public services, including WASH, to Kenya's over 550,000 refugees, many of whom are located in Kenya's arid and semi-arid ASAL region.

C. Government Policies and Commitments for Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

4. In January 2024 the GoK approved the Sovereign Green Bond Framework, which was developed with the support of the World Bank and IFC.[6] It provides a mechanism for accessing green, blue, social, and sustainability bonds available to finance green economic growth. The framework aims to articulate governance arrangements for the funds raised from the green bond's issuance. Moreover, in March 2024, the Central Bank of Kenya (CBK) published the Draft Kenya Green Finance Taxonomy, which aims to bring an understanding of what constitutes green finance as well as a standardized disclosure and

[4] This includes the counties of Marsabit, Turkana, Tana River, Garissa, Kirinyaga, Muranga, Kiambu, Meru, Kisumu, Nairobi and Kitui, among others.

[5] UN OCHA. "Kenya: Heavy Rains and Flooding Update - Flash Update #1" (11 April 2024): (https://reliefweb.int/report/kenya/kenya-heavy-rains-and-flooding-update-flash-update-1-11-april-2024).

[6] The framework development was supported by the Joint Capital Markets Action Plan (JCAP - TF0B3007).

reporting framework.[7] Climate financing is expected to increase with these approvals. Finally, Kenya is working toward issuing Africa's first sovereign sustainability-linked bond (SLB) in late 2024, consistent with its 2024 Medium-Term Debt Management Strategy and also with the support of the World Bank. The SLB has pre-determined sustainability performance goals, including on climate. The government also made progress toward promoting green modes of transport by advancing the Railways Bill (2024) strengthening urban public transport.

D. Other Challenges and Opportunities

5. Despite progress, mobilizing climate financing remains a challenge in Kenya. However, unlocking access to carbon markets is a growing opportunity. The World Bank, in collaboration with the Kenya Private Sector Alliance, launched the Carbon Market Guidebook for Kenyan Enterprises in April 2024.[8] The GoK has identified Carbon (credit) markets as a key tool to address Kenya's climate financing gap, which would also support the government's commitment to fiscal consolidation in the medium term. The guidebook provides a practical step-by-step direction that supports enterprises navigate the complex and fast-evolving landscape of carbon markets in the country. These markets represent an alternative financing avenue that can empower firms looking to access alternative sources of finance and, at the same time, meaningfully contribute to climate action.

E. World Bank Engagement in the Area of Climate Change

6. The World Bank engagements mentioned in the June 2023 Assessment Letter and November 2023 update are still ongoing. Additionally, the World Bank Board approved a US$1.2 billion Development Policy Financing operation (P500912) during FY24 which, among others, aims to generate synergies between the growth and climate agendas in Kenya by promoting green urban transport and unlocking natural capital through climate finance and make the Kenyan economy and households more resilient to climate shocks by uplifting vulnerable populations through accelerated structural transformation, restoring ecosystems, strengthening climate-smart social protection, and promoting access to WASH for refugees.

7. The Second Kenya Urban Support Program (P177048) was approved by the Board of Executive Directors in June 2023 and signed in December 2023. As part of the Program, the GoK committed to implement the guidelines developed to integrate resilience into urban planning practices and urban infrastructure investments to enhance resilience in urban areas and in the overall Program.

8. The World Bank, through financing from the City Climate Finance Gap Fund, supported the development of the Mombasa Climate Change Action Plan, which was launched in November 2023.

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[7] Central Bank of Kenya. 2024. Draft Green Finance Taxonomy (KGFT): https://www.centralbank.go.ke/2024/04/11/10452/.

[8] Khan, Isfandyar Zaman; Mok, Rachel Chi Kiu; Belenky, Lucas Gregory; Ang, Swee Ee; Crist, Jeannie; Elizabeth Kibaki-Obiero; Osman Mohammed, Hisham Mohammed Salih. 2024. A Carbon Market Guidebook for Kenyan Enterprises. Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099040424053541073/P1796801e6f92d053187b01916665fc998d

The next phase of technical assistance will support development of an implementation roadmap and pre-feasibility studies for selected prioritized projects.

9. In December 2023, the World Bank Board of Executive Directors approved two financing operations that address key climate adaptation and mitigation issues. The first is the Kenya Water, Sanitation and Hygiene Program for Results (P179012), which supports the GoK's National Water and Sanitation Investment Program. Eighty percent of the project financing will generate climate co-benefits from providing people with sustainable access to improved climate resilient water services and providing people with sustainable access to improved sanitation, lowering emissions from waste. The second is the Kenya Green and Resilient Expansion of Energy (GREEN) Program Phase 2 Project (P180465), which is the second phase of a Multiphase Programmatic Approach aims to increase the capacity of Kenya power system for energy trade and renewable energy integration. The financing will support the installation of the first battery energy storage system of up to 200 MWh for load shifting renewable energy sources (primarily geothermal) but also grid stability by providing system reserves (both fast and backup reserves). This project includes financing from the Green Climate Fund.

Annex I. Resilience and Sustainability Facility (RSF)–Assessment Letter Update on Kenya

December 22, 2023

This update to the RSF Assessment Letter—Kenya (dated June 28, 2023) highlights relevant changes that have occurred since the issuance of the Assessment Letter.

A. Country Vulnerability to Climate Change Including Human, Social, and Economic Costs

1. Kenya's vulnerability to climate change has in the recent months been underscored by the recent forecast of sustained rains for the short rain season (October–December) with 38 counties affected by floods. The forecast shows that most parts of the country will experience above average rainfall and counties in the North-Eastern, Eastern and Coast regions will be most affected. The rainfall will be driven by the current El Nino conditions and the likelihood of diseases outbreak thus remains high. The Kenya meteorological department expects that the ongoing rains will remain enhanced to January 2024 and could last until April.[1] Temperatures are also expected to be warmer than above average in most parts of the country and cooler than average in parts of the Northeast and Coastal region. The above pattern points to the spatial variation in the impacts of climate change that vary according to the biophysical conditions across the country and depend on where population and economic activities are concentrated.

B. Government Policies and Commitments for Climate Change Adaptation and Priority Areas to Strengthen Resilience

2. The Africa Climate Summit (ACS) was held in Nairobi in September 2023. The Government of Kenya signed up for the Nairobi declaration. The declaration stressed the importance of decarbonizing the global economy for equality and shared prosperity and called for investment to promote the sustainable use of Africa's natural assets for the continent's transition to low carbon development and contribution to global decarbonization. The Declaration calls for a comprehensive and systemic response to the incipient debt crisis outside default frameworks to create the fiscal space that all developing countries need to finance development and climate action. The Declaration also calls for prioritizing and mainstreaming adaptation into development policymaking and planning, including in the context of national plans and building effective partnership between with other regions of the world to meet the needs for financial, technical and technological support, and knowledge sharing for climate change adaptation. The third National Climate Change Action Plan (2023–2027) and the Long-term Strategy were also launched during the ACS.

[1] https://meteo.go.ke/forecast/monthly-forecast

C. Government Policies and Commitments in for Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

3. **Kenya is working to implement the main elements of the Nairobi Declaration, including through the Africa Green Investment initiative, launched at the recent COP28.** The Initiative presents countries' visions and the policy frameworks to implement the Nairobi Declaration and will be receiving support from the UAE. The Africa Green Investment initiative issues a call-to-action for global stakeholders to participate in fast-tracking green industrialization of Africa. In addition, the government has drafted a Green Fiscal Incentive Policy Framework that is being refined. The framework raises several aspirations including sector specific fiscal actions that span the agriculture, forestry, water, energy (including clean cooking) and waste management fields. It also includes the proposal of a carbon tax and green investment bank. In addition, it provides a sense of the directions the country is considering and the type of technical support that will be critical to ensure the final framework is operational.

4. **In September 2023, Kenya enacted the Climate Change (Amendment) Act, 2023.** The act provides for the establishment of a carbon registry that is publicly accessible. It would register information relating to carbon credit projects and the amount of carbon credits issued or transferred from Kenya. The intent is for the carbon registry to help increase climate financing activities in the country by providing investors with greater transparency on the carbon markets. A Designated National Authority, as established by the act, will be managing the registry. In addition, the government has also drafted the carbon markets regulations. These are currently being consulted and are expected to be ratified by early 2024.

D. Other Challenges and Opportunities

5. **Many of the challenges identified in the original assessment letter remain today, central among these is the absence of a robust coordination mechanism for steering climate positive development.** The Kenya Country Climate and Development Report (CCDR), released in November 2023, recommends operationalize a mechanism for inter- and intra-coordination among national, county, and municipal government (vertical and horizontal coordination).[2] It also calls for clarifying the institutional mandates on climate finance and carbon markets and operationalizing the National Climate Change Fund. The Kenya CCDR also identified the following enabling policy and institutional measures for mobilizing climate finance: (i) enhancing national financial and institutional capacity to mobilize climate finance; (ii) conducting climate risk management of the financial sector; (iii) developing a roadmap for greening financial sector; (iv) developing data infrastructure to inform green finance decision; (v) prioritizing a portfolio of investments considering climate/biodiversity targets, macro-fiscal situation, debt management strategy, and access to capital markets; (vi) expanding public-private-partnerships for priority investment; (vii) optimizing use of grant and concessional finance to catalyze private sector investments; (viii) initiating a program to pilot test and scale innovative instruments.

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[2] The Kenya CCDR is available at <https://openknowledge.worldbank.org/handle/10986/40572>.

E. World Bank Engagement

6. The World Bank engagements mentioned in the June 2023 Assessment Letter are still ongoing. In addition, the Kenya CCDR was launched on November 17, 2023, with the event headlined by three cabinet secretaries. This underscored the importance of the climate agenda for the government for which without climate action, the economy could face setbacks. The report shows that under a business-as-usual scenario, inaction could dampen real GDP by 1.3 to 2.4 percent by 2023 and 3.6 to 7.3 percent by 2050 under different climate futures compared to the baseline. Action is therefore important to avoid setting back Kenya's aspiration of attaining upper middle-income status. In terms of investment financing, the Second Additional Financing for Kenya Water Security and Climate Resilience Project (P181345) was approved in FY24 and has more than 20 percent climate co-benefits.

Statement by the Executive Director, Mr. Willie Nakunyada, and the Advisor of the Executive Director, Mr. Morekwa Esman Nyamongo on Kenya
October 30, 2024

Background

1. Our Kenyan authorities appreciate the fruitful engagements with staff and broadly concur with the thrust of staff's appraisal.

2. The Kenyan economy continues to demonstrate remarkable resilience despite the episode of social unrests experienced in recent months. The improving global economic and financial conditions continue to boost the services and manufacturing sectors, while the favorable weather conditions supported robust agriculture sector performance. Importantly, the diversified economy continues to support broad based growth and promote more inclusive growth. Moreover, the opening of the global bond markets to frontier economies early in the year enabled the authorities to issue a Eurobond that helped curtail short-term liquidity challenges—while the continued support from IMF and World Bank bolstered investor confidence. Consequently, the external sector position has improved, characterized by strong foreign exchange inflows and current account adjustment which have helped stabilize the FX market and helped shore-up external reserve buffers faster than expected. That said, the spillovers from the ongoing wars in Ukraine, Sudan, and the Middle East continue to put a strain on the country's regional markets, transport networks, as well as the cost of imported goods. Despite the domestic and external shocks, the authorities remain committed to reforms under the ECF/EFF arrangement and are determined to ensure the successful completion of the program.

Program Performance

3. Four out of six end-December 2023 QPCs were met except the target on tax revenue and continuous QPC on no new external payment arrears which were missed—but a waiver on nonobservance of the latter was granted at the sixth EFF/ECF reviews. In addition, all end-June 2024 Quantitative Targets (QTs) were met, except the fiscal targets on the primary balance and tax revenues which were missed. The targets on net international reserves (NIR), domestic guarantees, and present value (PV) of contracting or guaranteeing of new external debt as well as the continuous QPC on no new external payment arrears, were met. That said, the authorities have taken corrective actions through the passage of the Supplementary FY2024/25 Budget in July, which aligns with the objectives of the program's fiscal strategy to reduce debt levels. The Monetary Policy Consultation Clause (MPCC) for the test dates of end-December 2023 and end-June 2024, was met on the back of a supportive monetary policy stance and declining food prices.

4. While only one out of the ten structural benchmark (SB) that were due through end-September 2024 was met, three others were implemented with a delay and one more is expected to be implemented soon. A further three SBs were not met while the remaining two are proposed for rescheduling to allow additional time for their implementation. The delays on meeting structural benchmarks, largely reflect implementation challenges encountered by the authorities. Nonetheless, they remain optimistic that the rescheduling would provide ample time to take corrective measures.

5. Implementation of the reforms measures (RMs) under the RSF is progressing well. Since the approval of the program in July 2023, the authorities have implemented three out of nine reform measures under the arrangement—with two achieved under this review while one was achieved under the last review. Benefiting from Fund TA, the authorities have integrated the effects of climate change into the Fiscal Risk Statement (RM2) with analysis from this exercise being incorporated into the 2024 Budget Policy Statement. On the Green Taxonomy (RM4), a pilot application of the Kenya Green Finance taxonomy was launched with 10 commercial banks.

6. **Considering the satisfactory program performance under extremely challenging circumstances and the corrective actions already taken, our authorities seek Executive Directors' support in completion of the combined seventh and eighth reviews under the EFF/ECF arrangements and associated waivers, and the completion of the review under the RSF.**

Macroeconomic Environment and Outlook

7. Real GDP is expected to grow by 5.1 percent in 2024 compared with 5.6 percent in the previous year reflecting the impact of tight monetary policy and fiscal consolidation. Broad-based performance mainly in agriculture and services sectors supported GDP growth in the first half of 2024. Looking ahead, real GDP is expected to remain strong at 5.0 percent in 2025 supported by the resilience of services and agriculture as well as improved exports performance. In addition, the expected favorable global and regional economic outlook as well as calibrated fiscal and monetary policies, and government initiatives targeted at the small and medium-size enterprises and low-income households will spur growth. That said, significant downside risks remain, including the spillovers of the ongoing geopolitical tensions and the pace of monetary policy easing in major economies.

8. Inflation remains within the target range benefitting from prudent and supportive monetary policy actions. Meanwhile, headline inflation remains within the target range of 2.5–7.5 percent—and continues to decline to below the mid-point of the band. The appropriately restrictive monetary policy stabilized Non-Food-Non-Fuel (NFNF) inflation at

low levels. In addition, improved agricultural harvests resulted in significant reduction of food prices. Going forward, inflation is expected to remain within the target range supported by lower food inflation, and a stable exchange rate. Meanwhile, the current account narrowed to 4.0 percent of GDP in 2023 on the back of improved tea and horticulture exports as well as increased tourist arrivals, and remittance inflows. As a result, the CBK has continued to accumulate FX reserves from 3.8 in 2023 to 4.1 months of import cover—thus bolstering buffers to external shocks.

Fiscal and Debt Management Policies

9. As reflected in their Letter of Intent (LOI), the authorities are committed to a fiscal consolidation path consistent with the policies articulated in the MEFP. The fiscal adjustment efforts will be achieved through enhanced domestic revenue mobilization efforts and spending rationalization to enhance efficiency. They are persevering with implementation of the FY2024/25 Supplementary Budget, which is expected to lower the fiscal deficit from 8.3 percent of GDP in FY2020/21 to 4.3 percent of GDP. The authorities view fiscal consolidation efforts as important to reduce debt vulnerabilities while moving the present-value-of-debt to GDP ratio towards the target anchor of 55 percent by 2028.

10. Intensified domestic revenue mobilization efforts continue to rank high on the authorities' agenda, notwithstanding the difficult socio-political economy context. They continue to introduce and implement tax policy and administrative measures as well as non-tax measures to boost revenues and help meet program targets—some of which have triggered protests and heightened social tensions. In the meantime, they have intensified stakeholder engagement to secure social and political buy-in on revenue reforms. Notwithstanding the slippages in the revenue targets under the program, the tax revenues growth remains strong. The revenue underperformance since the start of the FY24/25 is attributed to the June-July protests, as well as tight financial and monetary conditions which constrained economic activity. Going forward, their resource mobilization efforts will be guided by the Medium-Term Revenue Strategy (MTRS).

11. On the expenditure side, the authorities are making efforts to improve efficiency in public spending while cushioning vulnerable groups. In this connection, they remain committed to earmarking resources for priority areas—education, health, and social protection programs. Further, the authorities are strengthening public finance management (PFM)—by implementing the Treasury Single account (TSA) as well as accrual basis of accounting to boost cash management and fiscal reporting. Concurrently, the authorities are intensifying efforts to crowd-in the private sector in the provision of public services through Public-Private Partnerships (PPP) contracts, reducing the number of extra-budgetary units and expediting reforms targeting state owned enterprises.

12. The authorities remain committed to stabilizing debt to GDP in the near-term and placing it onto a firm a downward trajectory to achieve their debt anchor of 55 percent of GDP in PV terms by 2028. They are optimistic that their steadfast fiscal consolidation efforts under the IMF supported program would be important to ensure debt sustainability. Looking ahead, they continue to leverage concessional external financing to contain debt service costs.

Monetary, Exchange Rate, and Financial Sector Policies

13. The monetary authorities are committed to containing headline inflation within the target range, maintain a flexible exchange rate regime, and further improve the monetary policy framework. To this end, the CBK maintained a tightening stance—raising policy rates by 300 percentage points cumulatively in 2023—to curtail aggregate demand and thaw down inflation. Consequently, inflation has been on a downward trend since January 2024 and is now comfortably below the mid-point of the target range while core inflation remains low and stable. Following the firm decline in inflation, the CBK has commenced interest rate cuts, but remains attentive to the global and domestic developments. In the meantime, the CBK is committed to make appropriate monetary policy adjustments as needed, to ensure that inflationary expectations are well anchored.

14. The CBK is committed to maintaining flexible exchange rate system to help absorb external shocks. In this connection, the central bank has continued to implement reforms including: (i) Refining macroeconomic modeling and forecasting frameworks; (ii) a new monetary policy implementation framework designed to enhance monetary policy transmission; (iii) improving access to the Discount Window; (iv) implementation of measures to improve the functioning of the interbank market including the implementation of a Centralized Securities Depository System (CSD); and (v) continuing to adapt and improve the communication of monetary policy decisions.

15. The authorities are committed to safeguarding financial stability as well as expanding affordable credit. Presently, the banking sector's capital adequacy and liquidity ratios remain strong. The government initiative to establish the Credit Guarantee Scheme (CGS)—aimed at improving financial access—has seen significant increases in credit uptake. That said, the authorities remain attentive to the rise in non-performing loans that have increased on account of high borrowing costs occasioned by sustained monetary tightening.

Structural, Governance, and Transparency Reforms

16. The strengthening of governance and anti-corruption policies continues to rank high on our authorities' structural reform agenda. They consider addressing corruption

vulnerabilities and strengthening governance as critical to ensuring the efficiency of public spending, enhancing competitiveness, generating growth, and reducing poverty to attain inclusive growth. In this vein, they have requested the Fund to conduct a Governance and Corruption Diagnostic, to help identify attendant vulnerabilities, and recommendations which will guide their fight against corruption and strengthen governance.

17. To improve the governance, and oversight of state-owned enterprises (SOEs) and state corporations (SCs), our authorities remain focused on meeting program objectives. They have continued to remain within the programmed envelope for extra-ordinary budget support to SOEs and government-linked companies. At the same time, the authorities view rationalization of state corporations as critical to the reform agenda. In this connection, they have conducted financial evaluations of 72 state corporations and are working on the next course of action. In the meantime, the authorities have developed a policy paper recommending the consolidation, dissolution/privatization, or reintegration of some SCs into the line ministries.

18. The authorities are committed to address deficiencies identified in the AML/CFT framework to expedite exit from the FATF grey list. Although the grey listing has minimal effects thus far, the authorities are concerned with its medium-term repercussions including on increased interest costs and delisting. As such, they have accelerated implementation of the FATF action plan—identified priority actions, including the completion of a terrorism financing risk assessment, adopted a supervisory framework for virtual asset service providers, and commenced strengthening AML/CFT risk-based supervision of financial institutions and designated nonfinancial businesses and professions (DNFBPs). As a first step, the CBK has commenced stand-alone AML/CFT inspections and enforcements, while aggressive outreach and capacity building to supervised entries to strengthen their capacity on AML/CFT, has been accelerated.

Conclusion

19. Our Kenyan authorities remain committed to the EFF/ECF supported program objectives to maintain macroeconomic stability, preserve fiscal and debt sustainability and building buffers against future shocks. They view the Fund's support under the EFF/ECF and RSF arrangements as catalytic and critical to their development objectives outlined in their Vision 2030 blueprint and the administration's bottom-up development model. They look forward to the Executive Directors' support to conclude the seventh and eighth EFF/ECF program reviews and related requests, and the second RSF review.