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Kenya: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix report on Kenya was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Kenya or the Executive Board of the IMF.

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KENYA

Selected Issues and Statistical Appendix

Prepared by a staff team consisting of G.E. Gondwe (head), A. Georgiou, and D. Cowen
(all AFR), A. Schwidrowski (FAD), and D. Andrews (PDR)

Approved by the African Department

May 18, 1998

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Kenya: Basic Data

Area, population, and GDP per capita

Area	582,600 square kilometers
Population	
Total (mid-1996 estimate)	27.4 million
Annual growth rate (for period 1987-96)	2.8 percent
GDP per capita (1996)	SDR 227

	1992	1993	1994	1995	1996	1997 Estimate
Gross domestic product						
	(In billions of Kenya shillings, unless otherwise indicated)					
GDP at constant (1982) prices	100.1	100.4	103.1	107.6	111.7	113.5
GDP at current market prices	264.5	333.6	400.7	455.7	516.1	607.8
GDP at factor cost at constant (1982) prices	86.6	86.9	89.5	93.8	97.8	99.8
(annual percentage change)	0.5	0.2	3.0	4.8	4.2	2.0
	(In percent of GDP at current market prices)					
Gross domestic expenditure (nominal)	99.9	95.2	96.9	106.0	104.2	106.1
Consumption	83.0	77.6	77.6	83.8	83.1	86.4
Gross investment	16.9	17.6	19.3	22.3	21.1	19.7
Resource balance	0.1	4.8	3.1	-6.0	-4.2	-6.1
Gross national saving	16.1	20.3	20.5	18.2	20.4	17.4
Gross domestic saving	17.0	22.4	22.4	16.2	16.9	13.6
Prices						
	(Annual percentage change)					
Consumer price index (annual average)	27.4	45.9	28.8	1.5	9.0	11.2
Consumer price index (end of period)	33.7	54.6	6.6	6.9	10.8	8.3
Exchange rates						
Kenya shilling per U.S. dollar (period average)	32.2	58.0	56.1	51.4	57.1	58.7
Nominal effective exchange rate (depreciation -)	-11.6	-41.2	49.3	-21.3	3.9	-4.0
Real effective exchange rate (depreciation -)	11.7	-18.9	46.7	-18.4	12.6	0.2
Central government finance¹						
	(In billions of Kenya shillings, unless otherwise indicated)					
Total revenue	73.6	106.8	130.6	151.3	155.0	...
Grants	3.9	4.0	5.5	5.8	5.8	...
Total expenditure and net lending	102.5	131.0	135.2	152.2	168.4	...
Recurrent	84.1	106.4	105.5	122.9	139.7	...
Development and net lending	18.3	24.5	29.7	29.3	28.7	...
Overall balance on a commitment basis						
(excluding grants)	-32.8	-28.2	-10.0	-6.7	-19.2	...
(including grants)	-28.9	-24.1	-4.5	-0.9	-13.4	...
Adjustment on cash basis	5.1	-0.9	0.0	-1.0	3.5	...
Overall cash balance						
(excluding grants)	-27.7	-29.1	-10.1	-7.7	-15.6	...
(including grants)	-23.7	-25.0	-4.5	-1.9	-9.9	...
Overall balance on a commitment basis (in percent of GDP)						
(excluding grants)	-11.0	-7.7	-2.3	-1.4	-3.4	...
(including grants)	-9.6	-6.6	-1.1	-0.2	-2.4	...

¹Fiscal year starting July 1 of the calendar year indicated.

Kenya: Basic Data (concluded)

	1992	1993	1994	1995	1996	1997 Estimate
Money and credit						
	(Annual percentage change)					
Domestic credit ¹	17.8	7.0	24.6	19.6	25.5	14.5
Government (net)	-0.3	4.9	12.7	1.0	-0.5	3.0
Other public sector	-0.1	-0.1	0.7	0.2	0.0	0.8
Private sector	18.3	2.2	11.3	18.7	26.0	10.7
Money and quasi money (M3)	33.6	22.3	27.4	12.5	15.9	9.8
Balance of payments						
	(In millions of U.S. dollars, unless otherwise indicated)					
Current account balance	-106	166	66	-397	-116	-243
Excluding official transfers (net)	-321	72	-14	-487	-221	-336
Exports, f.o.b.	1,013	1,103	1,484	1,875	1,969	2,100
Imports, c.i.f	-1,866	-1,606	-2,042	-3,067	-2,928	-3,294
Trade balance	-853	-503	-558	-1,192	-959	-1,194
Services (net)	820	788	759	620	531	558
Factor income (net)	-355	-360	-362	-320	-226	-203
Current transfers (net)	282	241	228	495	538	596
Capital account (net)	-131	116	36	258	555	242
Investment assets and liabilities (net)	-146	24	-268	-46	-11	-139
Short term (net) and errors and omissions	15	92	304	304	566	382
Overall balance	-237	282	103	-139	438	-1
Current account balance (in percent of GDP)						
(excluding official transfers)	-4.0	1.2	0.1	-5.1	-1.9	-3.2
(including official transfers)	-1.4	2.9	1.3	-4.1	-0.7	-2.3
Gross official international reserves (end of period)						
In millions of U.S. dollars	182	475	625	458	855	788
In months of imports	1.2	3.5	3.7	1.8	3.5	2.9
External debt						
Disbursed and outstanding (end of period) ²	5,758	5,912	6,358	6,515	6,193	5,758
Debt service (as a percent of goods and nonfactor services)	33.1	27.6	26.2	24.8	24.8	22.1
External payments arrears (end of period)	536	585	86	92	86	105

¹In percent of beginning-of-period broad money stock.

²Public medium- and long-term debt, including the Fund.

I. PUBLIC EXPENDITURE MANAGEMENT AND CONTROL¹

A. Introduction and Background

1. Major fiscal adjustment was undertaken in Kenya in the first half of the 1990s, as the overall budget deficit (on a commitment basis and excluding grants) fell from the equivalent of 11.0 percent of GDP in 1992/93 (July-June) to 1.4 percent of GDP in 1995/96; nevertheless, public expenditure management and control, which is discussed in this section, remains a major problem. The fiscal slippage in 1996/97, which saw the overall budget deficit rise from an original target of 1.4 percent of GDP to a final outturn of 3.4 percent of GDP, was largely associated with the failure of the government to observe proper oversight with regard to new spending commitments.
2. The lack of major improvement in public expenditure management and control in recent years is evident in a number of areas.² Stark discrepancies have emerged between the intended and realized level and composition of public sector expenditure, especially in areas related to nonwage recurrent spending on education, health, and other social services and on operations and maintenance. In addition, the completion rate for development projects is low—an estimated 3 percent per annum. Moreover, for both recurrent and development outlays, financial “informality,” defined as the use of financing instruments outside the legal framework, continues to persist, as evidenced by the large stock of domestic arrears.
3. The problems that face Kenya with regard to public expenditure management arise largely out of a failure of the government to observe rules governing budgetary implementation and control, as spelled out in the Financial Regulations of Kenya.³ In normal circumstances, this legally binding set of regulations would appear to provide an adequate framework for managing public expenditure. Often, however, observance of legally mandated financial rules and regulations has given way to ad hoc decisions to increase public spending in politically favored ministries.
4. The next subsection provides an assessment of the Financial Regulations as a basic framework for public expenditure management and control. The following subsection discusses a number of “external” factors that have led to a deterioration of formal implementation and control mechanisms, as well as recent efforts that have been undertaken to

¹Prepared by Arnim Schwidrowski (FAD).

²Recent studies in this area include the Government of Kenya's *1997 Public Expenditure Review* (with the World Bank) and the IMF's "Kenya: Implementing Government Budget" (April 1997). This section draws on both studies.

³The Financial Regulations comprise of a detailed set of rules and regulations governing most aspects of conduct of public finances in Kenya.

improve them (particularly in cash management and control). The final subsection draws several conclusions.

B. Framework for Expenditure Management and Control

5. The Financial Regulations establish a complete framework of rules for budget preparation, implementation, and control. They assign highest importance to the approved annual budget as the document that is expected to guide fiscal policy throughout the year. In doing this, they provide a comprehensive set of rules and procedures to guide the preparation and approval by parliament of the annual budget, which is expected to include highly disaggregated expenditure ceilings for each agency, institution, and program. Parliament is the only institution empowered to make changes to the annual budget, including the reallocation of resources between ministries and even between spending items within an individual ministry's budget.

Main rules in the Financial Regulations

6. For budget implementation, the Financial Regulations establish a tightly knit set of rules aimed at reducing the scope for deviation by accounting officers—the officers responsible in each ministry for its financial transactions—from the prescribed detailed expenditure program, as set out in the annual budget. Technically, the accounting officers are to be held personally responsible for any deviation from the procedures specified in the regulations. The degree to which proper budget implementation is ultimately observed is to be set out annually in a report to be issued by the Comptroller and Auditor-General to the Minister for Finance within seven months of the end of each fiscal year. The report is expected to include a full investigation of any infractions of the regulations. The Minister for Finance, in turn, is required to forward the report to parliament, where it is initially to be considered by the Public Accounts Committee (PAC) (dealing with the appropriations accounts) and the Public Investments Committee (PIC) (dealing with the public investment projects). Each committee is expected to produce a timely report, which is to be deliberated on by parliament as a whole. From these reports, parliament is expected to discuss and decide sanctions against those accounting officers who were found to surpass their mandate, as laid out in the Financial Regulations.

7. The budget implementation process is guided by a number of clearly defined rules and procedures. For each expenditure item, the treasury issues an authorization to incur expenditure, which shows the annual budgeted amount and the accounting officer who is responsible for overseeing the execution of this expenditure within the established rules and budget ceilings. The accounting officer is expected to request periodically the transfer of funds under the authorization to incur expenditure to the line ministry's accounts for recurrent or development spending. The Treasury evaluates the accounting officer's request and authorizes the transfer of funds. The accounting officer then can proceed to issue payment orders, or "vouchers," after certifying the delivery of goods or services requisitioned by the ministry.

8. With regard to the establishment of spending commitments, the Financial Regulations allow them to be entered before the Treasury transfers new funds as long as these commitments stay within the limits established through the authorizations to incur expenditure. This practice seems appropriate if time lags between the order and delivery of certain goods or services are correctly anticipated and if the treasury is informed about the level of spending commitments that will likely require the transfer of cash in the near future. However, the regulations expressly prohibit the accounting officers from establishing commitments if the intended expenditure surpasses the budgeted ceilings.

9. As the Financial Regulations aim at disaggregating expenditure control, accurate accounting and a smooth flow of information between the accounting officers and the treasury are key to ensuring proper budget implementation. The regulations mandate that each accounting officer account for all spending commitments entered, vouchers issued, and checks cashed in the ministry's "vote book." This vote book is the basis for detailed monthly reports to the treasury on commitments and cash outlays. In addition, the accounting officers are requested to reconcile their records of account balances and funds received throughout the month with those maintained at the treasury. Lastly, in each ministry, internal auditors who report to the treasury are expected to certify that all activities of the accounting officers are carried out in full compliance with the Financial Regulations.

10. Vouchers are used to carry out the cash outlays. Prior to the issue of a voucher, an accounting officer has to verify the legality of the claim and to certify that the amount to be authorized for payment falls within the approved expenditure ceiling. The Financial Regulations prescribe that vouchers must be issued immediately after a good or service has been supplied to the public sector.

Amendments to the approved budget

11. As mentioned before, the Financial Regulations start with the assumption that changes to the approved annual budget should be kept to a minimum. Any changes to the original budget must be justified as extraordinary cases, such as spending that is unexpected (i.e., generated by natural disasters) or "cannot be postponed without detriment to the public service." Any changes to the approved budget have to be sanctioned by parliament, and line ministries are expressly prohibited from incurring any spending commitments in anticipation of parliamentary approval. The treasury can grant exceptional permits for additional spending commitments only if compliance with the general rule would "inhibit the maintenance of public services."

12. If an accounting officer foresees the need to exceed the approved annual spending ceiling for an item, he or she has to seek, through the treasury, parliamentary approval of what is designated as a "supplementary request." Without the treasury's written approval, the accounting officer cannot incur any commitments that would be covered by the expected approval of additional funds. In any event, the treasury must seek parliamentary approval for

the supplementary request. These requests are normally made via the supplementary budget, which is brought before parliament for consideration every year around March.

C. External Factors Weakening Budget Implementation and Corrective Efforts

13. Against this background, recent experience has seen the annual budget become subject to amendments and modifications soon after its approval. While unforeseen events, such as natural disasters, have required that certain changes be made, political decisions also have led to the establishment of new spending commitments (such as unbudgeted wage increases or new development projects outside the public investment program) beyond those in the approved budget. At the same time, approved budget projections have tended to be based on overly optimistic foreign financing flows (grants and loans). This overoptimism has made it necessary for the treasury to compensate for shortfalls in this area either by seeking higher domestic financing or by restraining less politically favored expenditure (i.e., spending on social services and operations and maintenance) below budgeted levels. Owing to these considerations, the treasury has been forced to manage public expenditure with a crisis management approach, trying to adjust cash releases to line ministries based on variations in available cash.

14. To formalize this situation, the treasury, at the start of fiscal year 1994/95, began to issue monthly spending ceilings to line ministries on their recurrent expenditure and quarterly ceilings on their development expenditure, with a view to keep spending commitments in line with short-term cash projections. Moreover, the treasury began to focus greater attention on monitoring the cash flow, as manifested in the daily movements in the accounts held by each ministry at the central bank. In addition, the treasury has had to constrain the actual release of funds to the ministries even beyond the established monthly and quarterly ceilings to accommodate de facto spending reallocations or reductions, as determined by the available cash flow to, and additional spending undertaken by, certain ministries. Therefore, a comparison of realized with budgeted expenditure reveals a larger variation at the individual ministry level than at the aggregate level. In such a situation, it has become virtually impossible for the accounting officers to implement their annual or supplementary spending plans.

15. Similarly, it is inevitable that accounting officers, relying on their spending limits, would regularly run the risk of entering spending commitments (within these limits) even when the actual flow of funds would not permit their orderly payment. Therefore, the rise of domestic arrears, or "pending bills," or of overdrafts in the ministries' accounts, is not surprising. While these informal mechanisms of financing stand in clear violation of the Financial Regulations, the treasury apparently has tolerated these practices, because it has been unable to provide the funds envisaged for an orderly implementation of the approved budget.

16. Because of the increase in overdrafts and pending bills, the treasury eliminated the possibility of ministerial overdrafts as of the beginning of the fiscal year 1997/98. Since July 1997, only the treasury has been allowed to make use of the overdraft facility at the central bank, whose ceiling was established in the recently amended Central Bank of Kenya Act. At the same time, the approved budget for 1997/98 included provisions for eliminating the stock of pending bills as of end-June 1997.

17. At this stage, it is too early to assess whether the tightening of cash controls in the current fiscal year will result in the intended control over spending commitments. The current system still focuses exclusively on the monitoring of cash movements, while formal controls regarding spending commitments are not firmly in place. In early 1998, the authorities initiated a process to strengthen the monitoring of spending commitments by improving the timeliness and accuracy of the monthly expenditure reports that are being submitted by line ministries (as discussed above).

18. Parliament's recurring delays in discussing the Auditor-General's reports are a major area of concern. The deliberations on these reports are seen as a primary means of enforcing accountability in the management and use of public funds. The Auditor-General's reports covering the fiscal years 1992/93 to 1996/97 have not yet been discussed by parliament. Also, parliament only received its last set of reports from the Controller and Auditor-General for the fiscal year 1996/97 in April 1998—a clear violation of the established deadlines. The delays in this area partly arise from continued interference in the operations of the Auditor-General's office and in part from a decision to delay discussion of these reports in parliament. The Auditor-General's office has been hampered in its functions by an underprovision of budgetary funds for needed equipment, such as computers, and by the frequent removal of specially trained staff to other positions within the public sector.

D. Conclusion

19. The above analysis has shown that deficiencies in budget implementation are largely related to changes to the approved budget that stem from ad hoc policy decisions and overly optimistic projections of foreign disbursements. While the Financial Regulations establish appropriate rules for budget implementation and control, their functioning depends critically on the reliability of the approved budget's spending ceilings as a guide to the execution of spending at the ministerial level. However, the annual budget has become subject to frequent and unforeseen changes throughout the fiscal year that introduce a high degree of uncertainty into the orderly execution of annual spending programs at the ministerial level. The treasury's crisis management of the cash flow has, at least implicitly, acknowledged this situation by tolerating informal means of financing, in particular the accumulation of domestic arrears, which stand in clear violation of the Financial Regulations. This situation, together with the prevailing notion that infringements against the regulations are normally not penalized, has led to a further spread of fiscal indiscipline that is in urgent need of correction.

II. MONETARY POLICY AND FINANCIAL SECTOR ISSUES⁴

A. Monetary Policy Framework

20. This section discusses various aspects of monetary policy in Kenya, including the instruments available to the monetary authorities, current challenges in the area of monetary control, the state of financial markets, and the financial aggregate target that could be more appropriate to use for monetary programming in Kenya.
21. The central bank can affect monetary conditions in Kenya in the following ways:
- **Primary auctions of government paper.** American-style auctions are conducted once a week (on Thursdays), with the volume of paper sold in principle determined by both budgetary financing needs and monetary policy considerations. The process begins on the previous Friday, when the auction is advertised in all major daily newspapers in Kenya and the volume of paper to be auctioned is announced. Participants in the auction must physically drop off at the Central Bank of Kenya (CBK) their bids, which must include the face value of the paper to be bought,⁵ the price offered, and the maturity (91 or 182 days) desired. The Monetary Policy Committee of the central bank (which includes Ministry of Finance representatives) meets on Thursday afternoon to determine the amount to be actually sold, taking into consideration not only the financing need of the government and the amount of liquidity needed to be withdrawn as implied by the reserve money target of the central bank, but also the cutoff rate of interest that various volumes sold would imply.⁶
 - **Open market operations (“tap sales”).** Between primary auctions, the central bank engages in sales of government paper from its portfolio at rates that it negotiates individually with each bank. The central bank initiates these sales, often in the aftermath of primary auctions when only a low volume of paper has been sold—due either to undersubscription or to a small volume of bids accepted by the CBK, which might have perceived the rates (in the auction bids) to be excessively high.

⁴Prepared by Andreas Georgiou (AFR).

⁵The minimum direct bid is K Sh 1 million, but for bids carried out through banks the minimum bid is K Sh 50,000. For amounts smaller than K Sh 10 million, it is possible to submit a noncompetitive bid, which would receive the average price.

⁶The cutoff interest rate, together with the total volume of bids accepted, is subsequently published in newspaper dailies on the following day (Friday); it serves as a the benchmark for other sterilization and refinancing operations of the central bank during the following week. The cutoff rate is also thought to play an important role in determining the bidding rates in the following primary auction, as well as in the interbank market.

- **Repurchase agreements (repos).** The central bank engages in repurchase and reverse repurchase agreements with a view to mopping up liquidity in and injecting liquidity into the banking system, respectively. Decisions to offer repos are made on a daily basis on account of the perception of the tightness of monetary conditions and deviation from targets. The CBK will post electronically both a buying and a selling rate,⁷ including the amount and the maturity. Offers by the market are taken on a first-come, first-serve basis, but the CBK reserves the right to ration the liquidity injected.
- **The required reserve ratio.** The required reserve ratio has been used on occasion by the central bank to tighten or loosen monetary conditions. The last time the ratio was changed was on October 1, 1997, when it was decreased from 18 percent to 15 percent. Banks have to fulfill the ratio twice a month: in the middle and at the end of every month. The ratio is determined as the average amount of deposits of a bank (or a nonbank financial institution) with the central bank over a 15-day period ending in the middle and at the end of every month to the amount of domestic currency deposits held with the bank by residents and nonresidents on the last working day of the penultimate month through the middle of each month, and on the last day of the previous month thereafter.
- **The rediscount window.** Banks can approach the CBK and rediscount their holdings of government paper without limit at a price determined by the central bank on a daily basis. The rediscount rate in recent times has been maintained at 5 percentage points above the last treasury bill auction rate.
- **The Lombard window.** This facility permits a bank to borrow from the central bank up to 5 percent of its paid-up capital at a cost equal to the interest rate in the last treasury bill auction plus 3 percentage points. Collateral has to be in the form of government paper maturing in no more than 91 days or paper quoted on the Nairobi Stock Exchange.
- **The lender-of-last-resort window.** This facility permits a bank to borrow funds from the CBK in excess of the 5 percent of its paid-up capital available under the Lombard facility but at a higher cost—at 5 percentage points above the last treasury bill auction rate. The required collateral is the same as for the Lombard facility.
- **Foreign exchange market operations.** The CBK effectively injects or withdraws liquidity by engaging in foreign exchange market intervention. Intervention in the foreign exchange market in recent times has been primarily determined by a) the need to acquire foreign exchange for the government's debt-servicing needs and b) the

⁷These rates are set in such a way so as to induce market participants to engage in the operation desired by the CBK—a repo or reverse repo.

desire to moderate sharp movements in the exchange rate in a market that the central bank considers excessively thin. Thus, intervention has not been geared to affect domestic liquidity, although it can do so. In this light, the central bank often makes an effort to sterilize its intervention in the foreign exchange market through corresponding repos in the local currency market.

Issues of monetary control

22. Monetary policy in Kenya has been carried out not only via the first four operations mentioned above (primary auctions of government paper, open market operations, repos, and the required reserve ratio), but also through the last four operations mentioned, which are either not under the direct control of the monetary authorities (as in the rediscount, Lombard, and lender-of-last-resort windows, where the central bank is obliged to provide the amount of liquidity demanded and can only change the price) or are aimed at influencing the exchange rate or fulfilling the debt-service obligations of the government. These last four kinds of transactions have complicated the control of monetary aggregates, as they have had to be counterbalanced by the first four kinds of transactions, something which has not always been easily done. These difficulties have been exacerbated by the fact that there have been constraints in using the first four operations. For example, the primary auctions are dominated by the need to roll over maturing government debt, which, given its short maturity, has been very large every week.⁸ The large gross financing need implies that interest rates on government paper are kept high, which effectively precludes efforts to increase the auctioned amount further in order to absorb liquidity for monetary policy purposes, for fear of raising interest rates higher. Another example of a constraint on the conduct of monetary policy is the relative inflexibility afforded by the required reserve ratio as an instrument for monetary management over the short run. Finally, the remaining two instruments in the first category of operations—tap sales and repos—are hampered by the asymmetry between operations to mop up liquidity and operations to inject liquidity. Specifically, tap sales and sterilization repos are truly under the control of the banks and not of the monetary authorities, as the latter have no way to force the mopping up of liquidity but can only try to induce it by offering attractive rates to the banks. Often, the banks will not respond to seemingly attractive rates; this can be especially true when the need to tighten is most urgent, as during a time of speculative attack against the currency. In these circumstances, the monetary authorities in Kenya can find themselves unable to control the quantity of liquidity despite the apparent sophistication of the instruments available.

23. The solution to this problem appears to be in reducing the automaticity with which liquidity is provided under the second category of operations. This could be done by putting maximum limits on the amounts that were made available under these facilities so that they are consistent with monetary/liquidity targets of the CBK. Regarding foreign exchange market

⁸An average of 4 percent of government domestic debt matures every week—about 1 percent of GDP.

operations, an approach consistent with the exchange rate regime to which the authorities aspire is to avoid intervention in the foreign exchange market within a broad band, thus eliminating the influences of such intervention on domestic monetary conditions in most circumstances. In this approach, the government would typically acquire foreign exchange needed to service its foreign debt as any other debtor in the country by entering the market. If a “pure float” would appear to be unfeasible or undesirable even within a broad band, some intervention in the foreign exchange market could be manageable if the CBK had the means to control the other sources of domestic liquidity⁹—specifically, if it had the option of withdrawing liquidity offered to banks under its various facilities (as the problem is not to inject liquidity but to mop it up). Following this approach would imply that liquidity would have to be offered to banks mostly in the form of repurchase agreements and very short-term loans under the Lombard and lender-of-last-resort windows; the CBK could let these agreements and loans to mature and not renew them, thus automatically mopping up liquidity without directly relying on interest rate increases to do so.

The state of markets

24. The **secondary market for treasury bills** continues to be relatively underdeveloped in Kenya. Its development has been partially constrained by the extensive involvement of the CBK in the market through the extensive use of its tap sales of treasury bills and its rediscount window.¹⁰ The secondary market for bonds is somewhat more developed as certain banks have assumed the role of marketmakers.¹¹

25. The **interbank market for deposits** is considered to be thin, as only overnight deposits are quoted and the volumes tend to be small, in the range of 5 percent of required reserves. Interest rates charged on overnight funds can vary significantly from bank to bank. The dispersion of rates charged for overnight funds has often been 30 percent of the weighted average interest rate on daily interbank transactions and can reach much higher. This situation reflects, inter alia, the perceived differences in the creditworthiness and vulnerability of certain banks. Banks also place other deposits with each other, but there is limited information about the terms at which these deposits are accepted, which are not quoted as part of the interbank market. Altogether, deposits between banks are relatively small in total volume, reaching only about 25 percent of required reserves, or 3 percent of broad money; however, the bulk of

⁹Including by limiting the amount of liquidity that could become available through the various CBK facilities.

¹⁰Despite the lack of a well-developed secondary market, treasury bills are considered to be quite liquid, given the willingness of the central bank to rediscount such paper from banks or nonbank holders.

¹¹The central bank has also stood ready to rediscount any bonds brought in by these marketmakers.

these deposits is concentrated in certain banks, which appear to be excessively dependent on them.

26. The **foreign exchange market** is also thin, and small volumes have been known to move the exchange rate significantly. The actual rates at which trades are made are not disclosed to the public, but the CBK publishes the average of the opening (buying and selling) rates of nine major banks on a daily basis.

Monetary aggregates and financial programming considerations

27. In recent years, the conduct of monetary policy in Kenya has focused on the behavior of the broad monetary aggregate M3. This aggregate has been defined to include currency in circulation and term and nonterm domestic currency deposits with banks as well as with nonbank financial institutions, but not to include foreign currency deposits (FCDs) held by residents. This omission appears to have caused the growth of liquidity in the hands of the public to be understated—at least in the course of 1997, when there was both an increase in the foreign currency value of FCDs and in their domestic value after the depreciation of the Kenya shilling in July-August 1997. Specifically, while annual M3 growth was 9.8 percent at end-December 1997, the growth of M3X, which includes FCDs held by residents, reached 11.9 percent. Understating the growth in liquidity could lead to looser-than-warranted monetary conditions, with negative effects on inflation and balance of payments performance.

28. Another potentially important source of liquidity and of other services offered by money has been the holding of government paper by the nonbank public. This paper is by and large of short maturity (up to one year, and in its majority no longer than 91 days). Also, it is quite liquid because the CBK has stood ready to rediscount all treasury bills presented by nonbanks, as well as banks; in addition, treasury bonds can be readily sold by nonbanks to commercial banks, designated as marketmakers, which subsequently can quickly rediscount them with the CBK. In this light, treasury bills and bonds have characteristics close to those of term deposits with commercial banks, as the latter also have penalties associated with early withdrawal (which is the equivalent of rediscounting costs). Finally, government paper has been offering very attractive rates of return and has the backing of the state, which may imply (to some lenders) lower risk than that on commercial bank deposits. The rates on 91-day government paper have averaged about 27 percent since August 1997, while the rates on wholesale term deposits with commercial banks for three to six months have been in the range of 17-20 percent over the same period.

29. As government paper is a close substitute for bank liabilities, a measure of liquidity in the economy that includes bank term deposits but does not include government paper could understate the amount of liquidity held by the nonbank public, as in the case of excluding FCDs, and thus lead to the setting up of monetary targets that are inconsistent with the inflation and balance of payments objectives of the authorities. Alternatively, this point can be formulated in terms of projecting the demand for M3. Specifically, projecting the demand for

M3 without considering the demand for government paper¹² could lead to an excessively loose monetary policy if portfolio shares of government paper and deposits changed in favor of a greater share of government paper. By the same token, a portfolio shift in the direction of relatively larger holdings of bank liabilities could leave the monetary policy stance tighter than originally anticipated. In contrast, if the monetary programming exercise includes the nonbank holdings of government paper in the aggregate whose demand is being projected (or targeted), or the exercise projects M3 by taking explicitly into consideration the projections of the behavior of holdings of government paper, its potential for accuracy increases.¹³

30. The above considerations become increasingly relevant the more the nonbank public undertakes large shifts in its portfolio between government paper and bank liabilities. In cases where the portfolio shares remain stable for long periods of time or have only small effects on the growth of bank liabilities, monetary programming can proceed with small cost at the level of M3 and without regard to movements in potentially close substitutes, like government paper. However, the increasing sophistication of cash managers in large enterprises and (usually later on) of the population can rapidly change the monetary environment; in this case, persisting in the use of M3 under the assumption of broadly constant velocity¹⁴ could lead to misjudgements in monetary policy. The same point applies also in cases where monetary programs incorporate expected changes in velocity that, however, are not systematically revised in light of **unanticipated** shifts between M3 and its substitutes.

31. If the hypothesis is true that nonbank holdings of government paper are an essential part of liquidity, and thus the demand for M3 is contingent on the demand for such paper by nonbanks, one should be able to observe, inter alia, the following: (a) the variance of the velocity of the broader aggregate that includes M3 and nonbank holdings of government paper (called here M4) is smaller than the variance of the velocity of M3; (b) the rate of change in the velocity of M4 is nearly always lower in absolute terms than the rate of change of the velocity of M3; and (c) the correlation coefficient of the inverses of the velocities of M3 and of nonbank holding of government paper is a negative number significantly greater than 0 (but less than 1). The observation of these phenomena could serve as supportive evidence of

¹²This would be equivalent to assuming a broadly constant velocity for M3.

¹³These arguments imply, inter alia, that open market operations may not be always as effective in achieving inflation and balance of payments targets. Such an instrument remains potent to the extent that government securities are bought by banks (instead of by the nonbank public). If, however, the open market operation involves only an exchange of liquid government paper for deposits by nonbanks, then its effect on inflation and the balance of payments may be greatly hampered.

¹⁴This conclusion holds also for cases where the monetary program incorporates changes in velocity for other reasons (e.g., increasing monetization), but which do not include portfolio shifts.

the hypothesis that M4 rather than M3 is the more appropriate aggregate to project in monetary programming if one uses a constant-velocity assumption (which is usually the case in Fund-supported programs).¹⁵

32. For Kenya, monthly data were compiled for the period December 1992-March 1998 to calculate the velocity of M3 and of M4 (Figures 1 and 2).¹⁶ It was found that M3 velocity had a mean of 1.19, while M4 velocity had a mean of 0.99. Moreover, the variance of M3 velocity was 0.0099, while that of M4 velocity was 0.0028, indicated that velocity was much more stable for the broader aggregate.¹⁷ The same finding holds when the variances of M3 and M4 velocities are calculated over various subperiods in the sample. When the rate of change of the velocities of M3 and M4 were calculated, it was found that the velocity of M4 had a lower rate of change (in absolute terms) than that of the velocity of M3 in 48 out of the 52 months in the period December 1993-March 1998 (Figure 3). Finally, the correlation coefficient of the inverses of the velocities of M3 and of nonbank holdings of government paper was equal to minus 0.6, which is also consistent with the portfolio shift hypothesis that changes in M3 are strongly associated with opposite changes in nonbank holdings of government paper. Thus, the data appear to support the view that the velocity of M4 has been more stable than that of M3 since at least 1993, and that financial programming could have benefitted from using M4 as the aggregate—the projections of which would form the basis of the monetary programming exercise.¹⁸

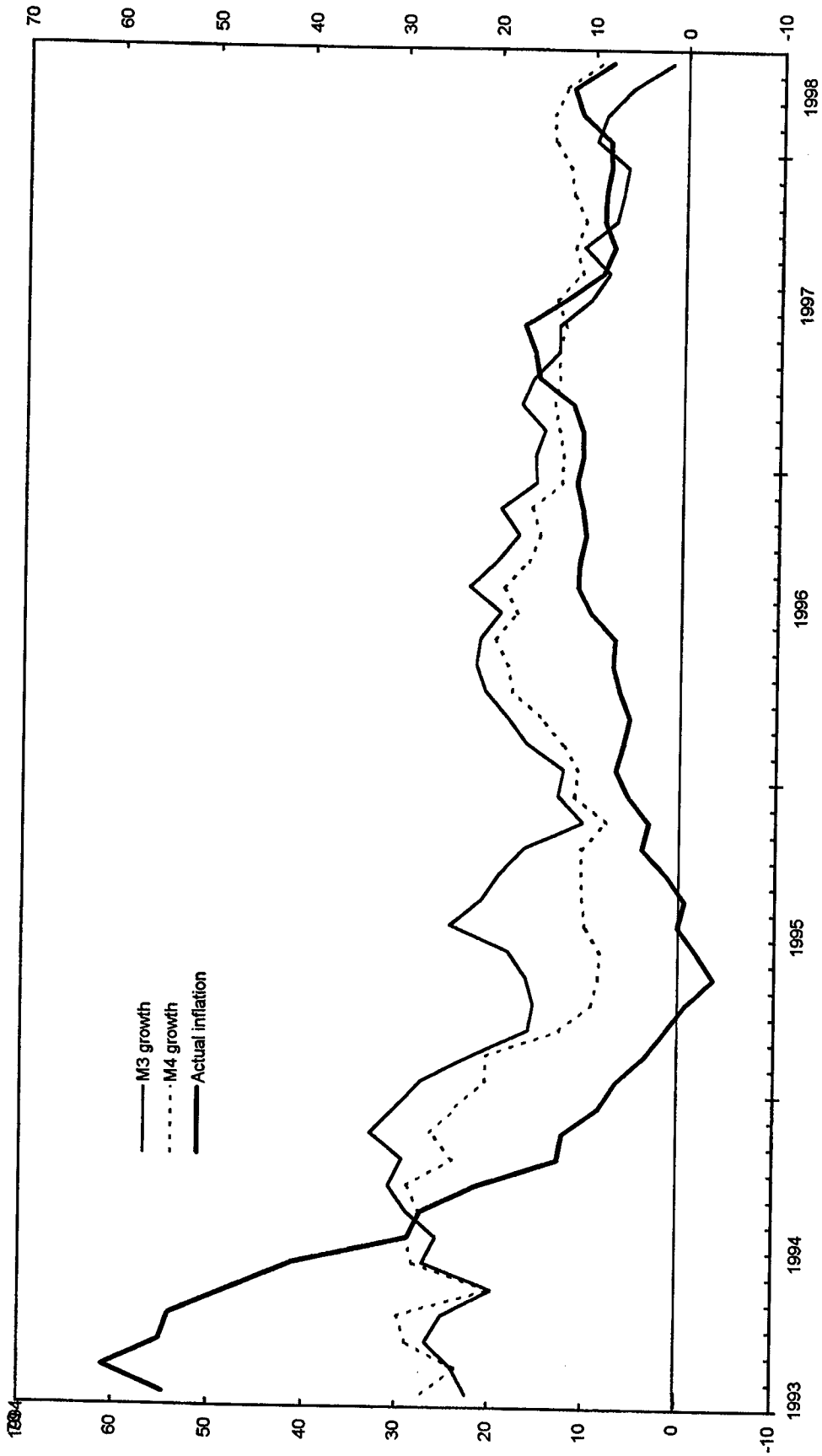
¹⁵Actually, given the discussion above on the exclusion of FCDs from M3, the most appropriate aggregate to use in monetary programming would probably be one that includes both nonbank holdings of government paper and FCDs, together with M3.

¹⁶Monthly velocity was calculated by using an annual real GDP index (based on market prices and not factor cost), interpolated by a quadratic method to a monthly index, and a monthly consumer price index. The use of the quadratic method in constructing monthly real GDP data produced results similar to other methods. Moreover, any deviation of interpolated growth rates from the (unknown) actual monthly GDP growth rates would cause only minor miscalculations of changes in velocity as the latter are dominated by the larger changes in prices and the monetary aggregate. In these circumstances, velocity for M3 was standardized to 1 for January 1993, while velocity for M4 was derived residually.

¹⁷It is not true that any broader aggregate would have a velocity with a smaller variance than M3.

¹⁸This does not mean that the standard monetary survey framework used in financial programming should be necessarily abandoned. The only implication is that the M3 projection, which enters the monetary survey, would have to be derived in the context of projections of M4 and of nonbank holdings of government paper.

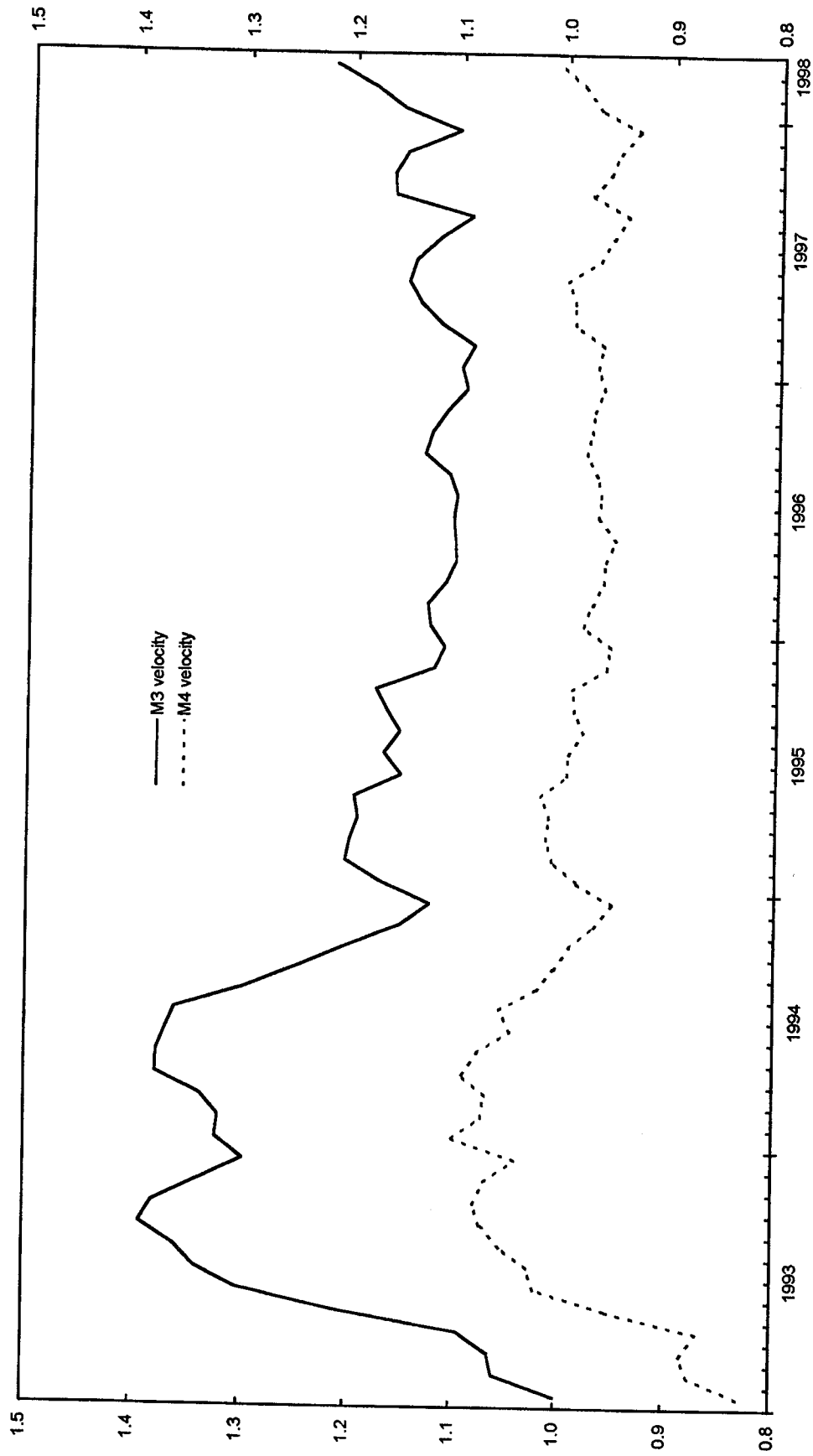
Figure 1. Kenya: Inflation and Change in M3 and M4, December 1993-March 1998¹
(In percent)



Sources: Kenyan authorities; and Fund staff estimates.

¹M3 is defined as currency in circulation plus term and non-term deposits with deposit money banks and nonbank financial institutions; M4 is defined as M3 plus nonbank holdings of government debt.

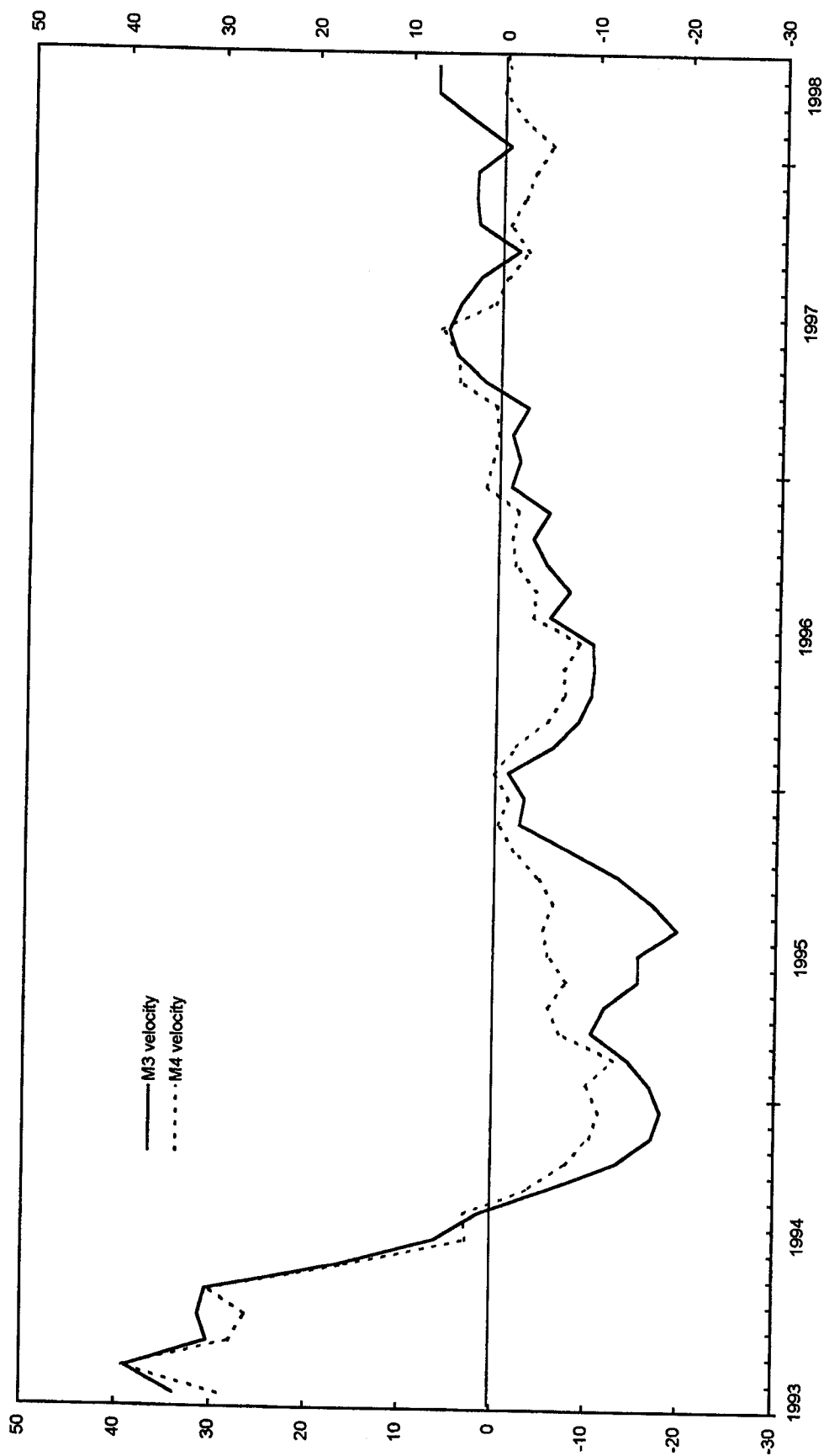
Figure 2. Kenya: Velocity of M3 and M4, January 1993-March 1998¹



Sources: Kenyan authorities; and Fund staff estimates.

¹M3 is defined as currency in circulation plus term and nonterm deposits with deposit money banks and nonbank financial institutions; M4 is defined as M3 plus nonbank holdings of government debt.

Figure 3. Kenya: Change in Velocity, December 1993-March 1998¹
(In percent)



Sources: Kenyan authorities; and Fund staff estimates.

¹M3 is defined as currency in circulation plus term and nonterm deposits with deposit money banks and nonbank financial institutions; M4 is defined as M3 plus nonbank holdings of government debt.

33. In an effort to get a sense of the implications of considering M3 as the monetary aggregate most stably related to prices and output, instead of the more appropriate M4, an alternative inflation rate for January 1994-March 1998 was simulated and compared with the actual inflation rate. The simulated inflation rate was constructed by constraining increases in M4 to equal the observed (actual) increases in M3 and by using the observed path of M4 velocity in this period. The simulation also assumes that output changes would be invariable to monetary conditions. Finally, it should be noted that **the simulated inflation rate is not the optimal inflation rate, as potentially it could still be too high or too low. In that sense, no conclusions are to be drawn about the desirability of policies in a given period;**¹⁹ the exercise is aimed only at indicating which direction inflation would have taken had M4 (as the more appropriate measure of liquidity in the economy) increased by the amounts finally observed for M3.

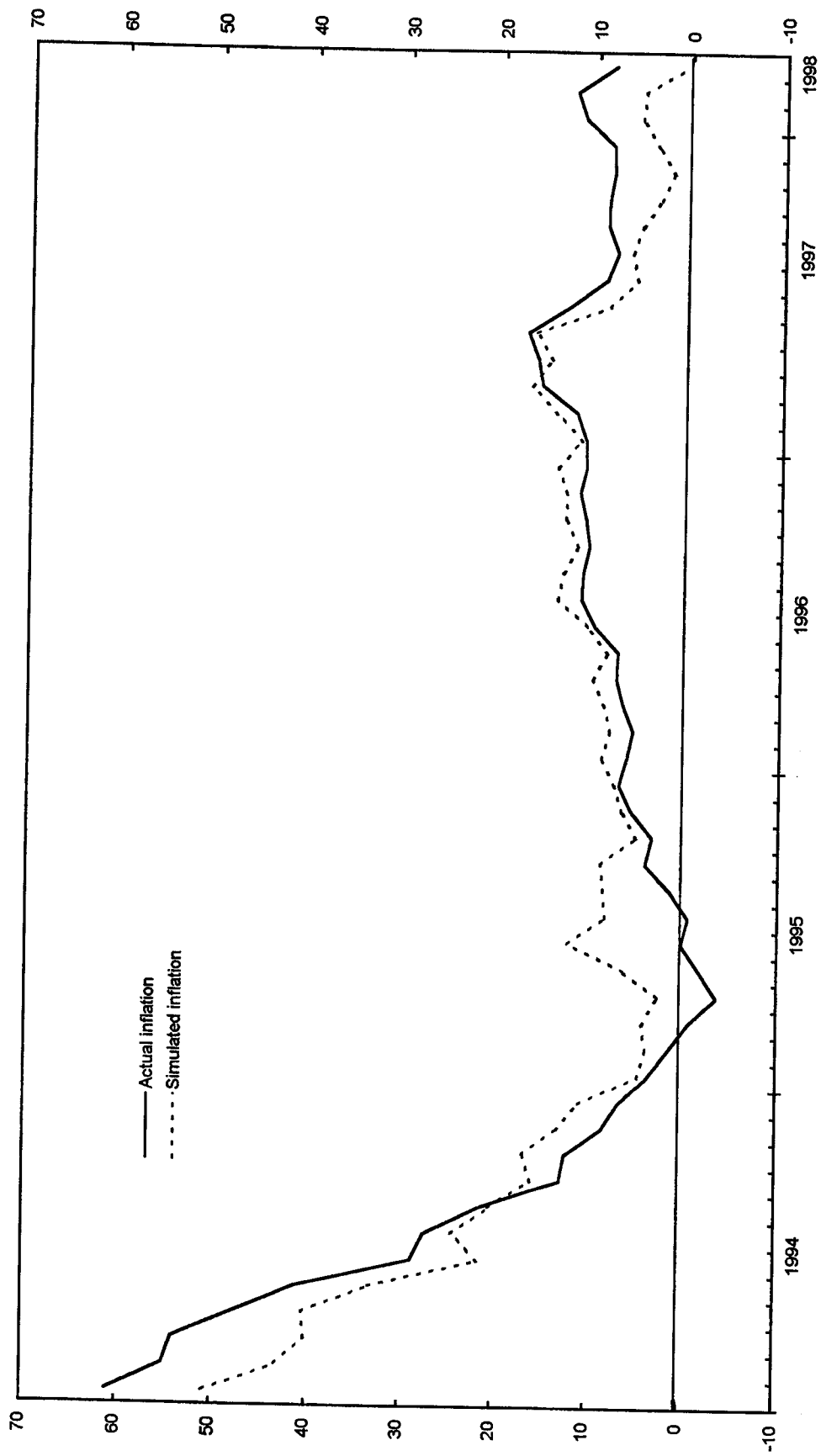
34. The results of the simulation are presented in Figure 4, where simulated inflation is shown to be lower than actual inflation in two periods—in most of 1994 and, more recently, in 1997 and the first quarter of 1998. Conversely, simulated inflation is higher in 1995 and, to some extent, in 1996. These results illustrate the potential problem of ignoring alternative forms of liquidity to M3. In 1994, as in 1997 and early 1998, there were significant portfolio shifts by the nonbank public away from money and into government paper holdings. As a result, the 12-month inflation rate at certain times in the first part of 1994 was probably up to 14 percentage points higher than it could have been.²⁰ Similarly, in the last three quarters of 1997 and the first quarter of 1998, inflation could potentially have been up to 7 percentage points lower than actually observed, reaching as low as the 0-2 percent range. In this sense, one can conclude that the actual monetary conditions in these periods were noticeably looser than they appeared if one concentrated on M3 alone. Alternatively, one can conclude that, had the authorities adjusted their monetary policy so as to contain increases in liquidity (as measured by M4) to the M3 increase that they finally allowed, inflation would have been significantly lower than actually observed (Figure 4).

35. In the period 1995-96, the simulation results illustrate that ignoring portfolio shifts could also have led to an unexpected tightening of monetary conditions. The simulation actually hints at an additional explanation for the particularly positive inflation performance in 1995, besides other factors not discussed here (like external sector developments). Inflation in that year would have been much more in line with performance in 1996 and 1997 if the monetary authorities had recognized and adjusted (by loosening policies, in this case, so that growth in M4 would have been equal to actually observed growth in M3) for the shift away from government paper and into bank liabilities. This conclusion, however, does not imply

¹⁹To judge the appropriateness of policies in a given period, due consideration should be given also to balance of payments and exchange rate developments, which is not done here.

²⁰This maximum difference between actual and simulated inflation was reached in March 1994.

Figure 4. Kenya: Actual and Simulated Inflation, January 1994-March 1998
(In percent)



Sources: Kenyan authorities; and Fund staff estimates.

that such a response would have been appropriate, as (a) the low inflation rate actually observed would probably have been preferred to a higher inflation rate, and (b) growth in liquidity equal to realized M3 growth is not assumed to have been an optimal target.

B. Banking Supervision Issues²¹

Structure of the financial sector

36. As of December 31, 1997, Kenya's financial sector comprised the Central Bank of Kenya, 53 domestic- and foreign-owned commercial banks, 15 nonbank financial institutions, 2 mortgage finance companies, 4 building societies, and numerous insurance companies and other specialized financial institutions. The Nairobi Stock Exchange was established in 1954 and is overseen by the Capital Markets Authority (CMA)—the supervisory body in charge of capital markets development in Kenya. Foreign participation in the Nairobi Stock Exchange was allowed in January 1995. As of December 1997, 58 companies, with a total market capitalization of US\$ 1.8 billion, were listed on the exchange.

37. Despite the existence of numerous banks, the banking sector in Kenya is dominated by four large banks, which together control 50 percent of bank assets and 52 percent of bank deposits.²² The largest bank in the system is the state-owned Kenya Commercial Bank, with 17 percent of bank assets and 18 percent of bank deposits. It is followed closely by the foreign-owned Barclays Bank, with 16 percent of bank assets and 15 percent of bank deposits. The group of large banks also includes the state-owned National Bank of Kenya and the foreign-owned Standard Chartered Bank, each having 8 percent of bank assets and 9 percent of bank deposits.

Bank supervision practices

38. Bank supervision in Kenya is conducted by the Bank Supervision Department of the CBK, which operates under the laws of Kenya, The Banking Act, and the Central Bank of Kenya Act. The Banking Supervision Department has the power to grant and revoke licences of institutions, to set minimum capital requirements, prudential ratios and regulations, and the frequency of financial statements, to audit and review institutions, and to approve external auditors. Overall, the department can be deemed to have the legal and regulatory authority to effectively supervise the operations of the banking system in Kenya.²³ It lacks, however, the

²¹The material in this section relies heavily on the work done by an MAE consultant in Kenya during the 1998 Article IV consultation discussions.

²²As of December 31, 1997.

²³The Bank Supervision Department aims to adhere to the principles of the Basle Committee
(continued...)

legal authority to impose penalties for violation of regulations that do not relate to monetary policy; such authority is reserved for the Ministry of Finance.

39. To ensure prudent management of banking institutions, the Banking Supervision Department conducts both on-site inspections and off-site surveillance of banking institutions. Regarding on-site inspections, they are intended to be conducted regularly; the goal is to visit each institution annually. The off-site surveillance is a continuous process whereby information is obtained from banks and other financial institutions in the form of a set of returns. In this context, banks are required to periodically furnish the Banking Supervision Department with statistical and other information covering key areas of their operations to enable the department to form an opinion of their financial soundness. For example, liquidity positions are submitted every ten days, balance sheets and foreign exchange operations statistics on a monthly basis, profit and loss statements on a quarterly basis, and externally audited accounts on an annual basis. On the basis of this information, the Bank Supervision Department rates the reporting institutions, and, upon identification of weaknesses, the institutions are asked to undertake any necessary remedial measures.

40. While on-site examinations of each institution are to be performed as often as possible (with annual inspections the goal), on-site examinations in recent years have been conducted relatively infrequently. For example, in 1997, full on-site examinations were performed at only 19 out of 74 institutions (26 percent), all of which were banks; no inspections were conducted on any of the 15 nonbank financial institutions, the 2 mortgage companies, or the 4 building societies. Only 23 percent of the total assets in the system were scrutinized during the on-site inspections in 1997. The picture that emerges from a review of the records of the Banking Supervision Department in recent years is that of only sporadic full on-site examinations of financial institutions; some institutions have not been subjected to an on-site inspection in several years. Specifically, 19 institutions (30 percent of total) have not had an on-site examination since 1994, including 3 of the 7 largest institutions (Peer Group 1, as defined by the CBK).

41. With full on-site inspections lagging, the Bank Supervision Department has carried out instead targeted inspections (i.e., inspections of a particular area of a bank's operations) and special investigations. In 1997, the on-site division conducted 31 targeted inspections and 4 special investigations. Targeted inspections focused on areas such as asset quality, capital adequacy, and earnings. Special inspections included areas such as imprudent banking and lending practices and insider lending.

²³(...continued)

on Banking Supervision. A first review of the Bank Supervision Department's examination program indicates that the department possesses the examination techniques to effectively audit and review financial institutions.

42. The Banking Supervision Department has operated in recent years under certain handicaps that help explain the small number of full on-site investigations. In 1994-95, the department was restructured, and many of its experienced staff members were transferred to other departments. Moreover, in 1997, in the context of an early retirement program, a number of experienced examiners opted to retire. As a consequence, the number of fully trained and experienced examiners declined from 37 in 1994 to 16 in 1997. Thus, the department is currently lacking the number of staff needed to examine the large number of financial institutions in the system as frequently as envisaged.

Portfolio quality and related issues

43. As of December 31, 1997, nonperforming loans in the 74 institutions supervised by the Bank Supervision Department amounted to K Sh 52 billion (20.5 percent of total loans),²⁴ this total represents an average increase of 61 percent in each of the past two years.²⁵ There are 19 banks (35 percent of the total) with nonperforming loans comprising more than 20 percent of their loan portfolio, and, for some, nonperforming loans reach as high as 87 percent of their total loans.

44. On an aggregate basis, financial institutions appear to possess adequate capital and reserves. The provision of doubtful loans amounted to K Sh 28 billion on December 31, 1997, (48 percent of nonperforming loans).²⁶ If, however, the estimate of losses on the disposal of nonperforming loans is understated, additional losses would have to be recognized, negatively affecting the institutions' capital and reserve accounts. The currently very small return garnered by the depositor protection fund on nonperforming advances it has received for disposition indicates that the provision for nonperforming advances may need to be adjusted upward. Such an adjustment would reduce, but not eliminate, the total equity in the system.²⁷ Individual banks and nonbank financial institutions, however, could see their total equity eliminated if provisioning needs were adjusted upward. An additional risk arises from the lack of on-site examinations of many institutions, as the true state of their portfolios may be worse

²⁴Building societies are not included.

²⁵As of December 31, 1995, nonperforming loans totaled K Sh 20 billion (17.6 percent of total loans).

²⁶By this measure, financial institutions are implicitly estimating that they would be able to recover about 50 percent of the value of all nonperforming advances. This amount, however, is the maximum potential additional exposure.

²⁷With a maximum potential additional exposure (on the basis of reported impaired portfolio loans) of K Sh 27 billion and K Sh 58 billion in capital and reserves, the system as a whole would be solvent even in the unlikely case of a complete lack of recovery on all impaired loans.

than reported and, thus, the current level of provisioning undertaken by these institutions may be insufficient to prevent an important decrease in their capital.

45. An important issue is the diversity of experiences among banks in Kenya in the areas of both portfolio performance and capital adequacy. A preliminary review indicates that even among Peer Group 1 banks there are significant differences. While certain banks have (report) only a small share of nonperforming loans, large parts of other banks' portfolios are impaired. The potential additional exposure of these latter banks could significantly affect their capital. Additional effects on capital adequacy may be understated by inadequate reporting of the true state of the portfolios of certain banks that have not been subjected to on-site examinations for long periods of time.

Table 1. Kenya: Gross Domestic Product by Origin at Constant Prices, 1991-96

	1991	1992	1993	1994	1995	1996 Estimate
(In millions of Kenya shillings at 1982 prices)						
Primary sector	25,676	24,811	24,001	24,726	25,927	26,722
Agriculture, forestry, and fishing	25,437	24,591	23,776	24,498	25,692	26,482
Mining and quarrying	239	220	225	228	234	240
Secondary sector	17,123	17,134	17,164	17,561	18,112	18,718
Manufacturing	11,633	11,772	11,984	12,212	12,688	13,154
Construction	4,074	3,953	3,760	3,888	3,926	4,028
Utilities	1,417	1,409	1,421	1,461	1,499	1,536
Tertiary sector	43,431	44,699	45,681	47,202	49,764	52,338
Trade, restaurants, and hotels	9,441	9,579	9,591	10,181	11,049	11,934
Transport, storage, and communications	5,182	5,272	5,314	5,474	5,703	5,932
Financial institutions	7,069	7,559	8,103	8,597	9,191	9,843
Ownership of dwellings	6,740	6,826	6,997	7,146	7,507	7,899
Other services ¹	14,998	15,463	15,676	15,804	16,314	16,731
GDP at factor cost	86,230	86,644	86,846	89,489	93,803	97,778
(In percent of GDP)						
Primary sector	29.8	28.6	27.6	27.6	27.6	27.3
Agriculture, forestry, and fishing	29.5	28.4	27.4	27.4	27.4	27.1
Mining and quarrying	0.3	0.3	0.3	0.3	0.2	0.2
Secondary sector	19.9	19.8	19.8	19.6	19.3	19.1
Manufacturing	13.5	13.6	13.8	13.6	13.5	13.5
Construction	4.7	4.6	4.3	4.3	4.2	4.1
Utilities	1.6	1.6	1.6	1.6	1.6	1.6
Tertiary sector	50.4	51.6	52.6	52.7	53.1	53.5
Trade, restaurants, and hotels	10.9	11.1	11.0	11.4	11.8	12.2
Transport, storage, and communications	6.0	6.1	6.1	6.1	6.1	6.1
Financial institutions	8.2	8.7	9.3	9.6	9.8	10.1
Ownership of dwellings	7.8	7.9	8.1	8.0	8.0	8.1
Other services ¹	17.4	17.8	18.0	17.7	17.4	17.1
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0
(Annual percentage change)						
Primary sector	-0.7	-3.4	-3.3	3.0	4.9	3.1
Secondary sector	2.4	0.0	0.2	2.3	3.1	3.3
Tertiary sector	3.6	2.9	2.2	3.3	5.4	5.2
GDP at factor cost	2.1	0.5	0.2	3.0	4.8	4.2

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

¹Includes general government.

Table 2. Kenya: Gross Domestic Product by Origin at Current Prices, 1991-96

(In millions of Kenya shillings)

	1991	1992	1993	1994	1995	1996 Estimate
Primary sector	52,112	66,145	90,139	113,360	123,326	131,212
Agriculture, forestry, and fishing	51,551	65,540	89,435	112,646	122,602	130,471
Mining and quarrying	561	606	704	714	724	741
Secondary sector	37,566	41,303	47,226	57,590	62,348	71,171
Manufacturing	23,348	24,615	28,394	36,155	38,911	45,645
Construction	11,395	13,620	15,167	16,954	18,340	20,012
Utilities	2,823	3,068	3,665	4,481	5,097	5,515
Tertiary sector	101,128	120,603	146,344	167,114	198,442	233,096
Trade, restaurants, and hotels	22,667	30,342	38,413	48,016	64,760	82,895
Transport, storage, and communications	13,638	18,174	19,838	25,259	30,313	34,277
Financial institutions	17,309	21,627	27,963	40,313	45,910	52,923
Ownership of dwellings	15,828	18,409	19,967	21,481	22,963	26,132
Other services ¹	31,686	32,051	40,162	32,045	34,497	36,869
GDP at factor cost	190,807	228,051	283,708	338,065	384,116	435,479

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

¹Includes general government.

Table 3. Kenya: Expenditure on Gross Domestic Product at Constant Prices, 1991-96

	1991	1992	1993	1994	1995	1996 Estimate
(In millions of Kenya shillings at 1982 prices)						
Consumption	84,362	87,805	88,960	101,558	103,468	113,736
Private sector	66,401	68,205	67,890	74,295	73,524	82,981
Public sector	17,961	19,600	21,070	27,264	29,944	30,755
Gross investment	17,045	14,832	15,236	17,141	19,699	20,884
Fixed capital formation	15,247	14,364	14,065	16,002	18,468	18,984
General government	7,277	6,656	6,239	7,645	6,906	7,045
Private sector	7,970	7,708	7,826	8,356	11,562	11,940
Change in stock	1,799	468	1,171	1,139	1,231	1,900
Gross domestic expenditure	101,408	102,638	104,196	118,700	123,167	134,620
Resource balance	-544	-2,580	-3,785	-15,645	-15,572	-22,914
Exports of goods and nonfactor services	27,667	24,970	33,081	27,422	35,029	32,633
Imports of goods and nonfactor services	-28,211	-27,550	-36,866	-43,068	-50,601	-55,547
GDP at market prices	100,864	100,057	100,411	103,054	107,595	111,706
Net indirect taxes	14,634	13,413	13,555	13,563	13,792	13,929
GDP at factor cost	86,230	86,644	86,856	89,491	93,803	97,778
(In percent of GDP at market prices)						
Consumption	83.6	87.8	88.6	98.5	96.2	101.8
Private sector	65.8	68.2	67.6	72.1	68.3	74.3
Public sector	17.8	19.6	21.0	26.5	27.8	27.5
Gross investment	16.9	14.8	15.2	16.6	18.3	18.7
Fixed capital formation	15.1	14.4	14.0	15.5	17.2	17.0
General government	7.2	6.7	6.2	7.4	6.4	6.3
Private sector	7.9	7.7	7.8	8.1	10.7	10.7
Change in stock	1.8	0.5	1.2	1.1	1.1	1.7
Gross domestic expenditure	100.5	102.6	103.8	115.2	114.5	120.5
Resource balance	-0.5	-2.6	-3.8	-15.2	-14.5	-20.5
Exports of goods and nonfactor services	27.4	25.0	32.9	26.6	32.6	29.2
Imports of goods and nonfactor services	-28.0	-27.5	-36.7	-41.8	-47.0	-49.7
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
(Annual percentage change)						
Consumption	2.9	4.1	1.3	14.2	1.9	9.9
Private sector	2.1	2.7	-0.5	9.4	-1.0	12.9
Public sector	5.8	9.1	7.5	29.4	9.8	2.7
Gross investment	-10.8	-13.0	2.7	12.5	14.9	6.0
Fixed capital formation	-3.1	-5.8	-2.1	13.8	15.4	2.8
Change in stock	-46.9	-74.0	150.0	-2.7	8.0	54.4
Gross domestic expenditure	0.3	1.2	1.5	13.9	3.8	9.3
Exports of goods and nonfactor services	-0.6	-9.7	32.5	-17.1	27.7	-6.8
Imports of goods and nonfactor services	-0.4	-0.2	-10.4	30.3	30.3	30.3
GDP at market prices	1.4	-0.8	0.4	2.6	4.4	3.8
Net indirect taxes	-2.2	-8.3	1.1	0.1	1.7	1.0
GDP at factor cost	2.1	0.5	0.2	3.0	4.8	4.2

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

Table 4. Kenya: Expenditure on Gross Domestic Product at Current Prices, 1991-96

	1991	1992	1993	1994	1995	1996 Estimate
(In millions of Kenya shillings)						
Consumption	177,043	219,552	258,903	310,796	381,678	428,673
Private sector	139,437	178,077	210,596	250,076	312,539	343,104
Public sector	37,606	41,475	48,307	60,719	69,140	85,568
Gross investment	47,022	44,675	58,750	77,300	101,517	109,063
Fixed capital formation	42,671	43,777	56,505	75,616	99,497	104,063
General government	19,150	19,457	24,387	36,104	36,659	39,183
Private sector	23,521	24,319	32,118	39,512	62,838	64,880
Change in stock	4,351	898	2,245	1,683	2,020	5,000
Gross domestic expenditure	224,065	264,227	317,653	388,095	483,196	537,736
Resource balance	-2,815	246	15,960	12,584	-27,542	-21,639
Exports of goods and nonfactor services	60,512	69,287	134,918	148,225	152,596	173,531
Imports of goods and nonfactor services	-63,327	-69,041	-118,958	-135,641	-180,139	-195,170
GDP at market prices	221,250	264,473	333,613	400,679	455,653	516,097
Net indirect taxes	30,443	36,422	49,905	62,614	71,538	80,618
GDP at factor cost	190,807	228,050	283,708	338,065	384,116	435,479
(In percent of GDP at market prices)						
Consumption	80.0	83.0	77.6	77.6	83.8	83.1
Private sector	63.0	67.3	63.1	62.4	68.6	66.5
Public sector	17.0	15.7	14.5	15.2	15.2	16.6
Gross investment	21.3	16.9	17.6	19.3	22.3	21.1
Fixed capital formation	19.3	16.6	16.9	18.9	21.8	20.2
General government	8.7	7.4	7.3	9.0	8.0	7.6
Private sector	10.6	9.2	9.6	9.9	13.8	12.6
Change in stock	2.0	0.3	0.7	0.4	0.4	1.0
Gross domestic expenditure	101.3	99.9	95.2	96.9	106.0	104.2
Resource balance	-1.3	0.1	4.8	3.1	-6.0	-4.2
Exports of goods and nonfactor services	27.3	26.2	40.4	37.0	33.5	33.6
Imports of goods and nonfactor services	-28.6	-26.1	-35.7	-33.9	-39.5	-37.8
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

Table 5. Kenya: Gross Domestic Product, GDP Deflator, Population, and Real per Capita Income, 1987-96

	GDP at market prices		GDP Deflator (Index, 1982=100)	Population (In millions)	Real per Capita GDP (In Kenya shillings)
	1982 prices	Current prices			
1987	85,833	131,183	152.8	21.4	4,018
1988	91,044	151,194	166.1	22.0	4,132
1989	95,369	172,859	181.3	22.7	4,202
1990	99,434	196,436	197.6	23.4	4,258
1991	100,864	221,250	219.4	24.0	4,200
1992	100,057	264,473	264.3	24.7	4,054
1993	100,411	333,613	332.2	25.3	3,961
1994	103,054	400,679	388.8	26.0	3,961
1995	107,595	455,653	423.5	26.7	4,032
1996	111,706	516,097	462.0	27.4	4,080
			(Annual percentage change)		
1987	5.9	11.7	5.4	3.8	2.0
1988	6.1	15.3	8.7	3.1	2.8
1989	4.8	14.3	9.1	3.0	1.7
1990	4.3	13.6	9.0	2.9	1.3
1991	1.4	12.6	11.0	2.8	-1.4
1992	-0.8	19.5	20.5	2.8	-3.5
1993	0.4	26.1	25.7	2.7	-2.3
1994	2.6	20.1	17.0	2.6	0.0
1995	4.4	13.7	8.9	2.6	1.8
1996	3.8	13.3	9.1	2.6	1.2
Average (1987-96)	3.3	16.0	11.9	2.9	0.4

Sources: Government of Kenya, *Economic Survey*, various issues; World Bank, *World Development Indicators*, various issues; and Fund staff estimates.

Table 6. Kenya: Gross Fixed Capital Formation at Current Prices, 1991-96

	1991	1992	1993	1994	1995	1996 Estimate
(In millions of Kenya shillings)						
Gross fixed capital formation	42,673	43,777	56,505	75,616	99,497	104,063
General government	7,409	9,352	7,630	11,474	19,951	21,867
Private sector	35,264	34,424	48,875	64,142	79,546	82,196
Agriculture, forestry, and fishing	2,872	2,855	3,164	5,179	7,152	6,536
Mining and quarrying	283	412	294	279	715	719
Manufacturing	6,833	6,146	8,299	11,976	19,233	23,490
Construction and dwelling	6,771	8,876	10,187	8,872	11,494	11,546
Utilities	5,082	2,870	2,859	3,541	5,139	4,626
Financial services	1,390	807	1,838	2,964	4,057	4,396
Commerce	2,732	1,887	3,722	2,453	3,684	3,365
Transport, storage, and communications	8,413	9,029	15,942	25,834	24,253	24,152
Other	888	1,541	2,570	3,044	3,819	3,366
(In percent of GDP at market prices)						
Gross fixed capital formation	19.3	16.6	16.9	18.9	21.8	20.2
General government	3.3	3.5	2.3	2.9	4.4	4.2
Private sector	15.9	13.0	14.7	16.0	17.5	15.9
Agriculture, forestry, and fishing	1.3	1.1	0.9	1.3	1.6	1.3
Mining and quarrying	0.1	0.2	0.1	0.1	0.2	0.1
Manufacturing	3.1	2.3	2.5	3.0	4.2	4.6
Construction and dwellings	3.1	3.4	3.1	2.2	2.5	2.2
Utilities	2.3	1.1	0.9	0.9	1.1	0.9
Financial services	0.6	0.3	0.6	0.7	0.9	0.9
Commerce	1.2	0.7	1.1	0.6	0.8	0.7
Transport, storage, and communications	3.8	3.4	4.8	6.4	5.3	4.7
Other	0.4	0.6	0.8	0.8	0.8	0.7
Memorandum item:						
GDP at market prices (in millions of Kenya shillings)	221,250	264,473	333,613	400,679	455,653	516,097

Sources: Government of Kenya, *Statistical Abstract and Economic Survey*, various issues; and Fund staff estimates.

Table 7. Kenya: Sales of Agricultural Production to the Marketing Boards, 1991-96

	1991	1992	1993	1994	1995	1996
	(In thousands of metric tons) ¹					
Coffee	86.4	88.4	77.9	81.5	95.8	103.2
Tea	203.6	188.1	211.1	209.4	244.5	257.2
Maize	303.5	324.1	241.8	316.0	401.0	295.5
Wheat	199.0	125.9	73.0	105.2	125.5	130.0
Rice (paddy)	12.9	14.2	11.4	13.5	14.6	15.9
Sugarcane	4,047.9	3,656.6	3,839.4	3,308.2	4,034.9	4,122.0
Cotton	8.4	12.8	2.5	1.8	0.2	0.5
Sisal	38.8	34.1	35.1	34.0	27.9	28.1
Pyrethrum extract	183.8	211.6	220.5	172.2	122.8	93.0
	(Annual percentage change)					
Coffee	-22.8	2.3	-11.9	4.6	17.5	7.7
Tea	3.4	-7.6	12.2	-0.8	16.8	5.2
Maize	-42.5	6.8	-25.4	30.7	26.9	-26.3
Wheat	153.5	-36.7	-42.0	44.1	19.3	3.6
Rice (paddy) ²	...	10.1	-19.7	18.4	8.1	8.9
Sugarcane	-3.6	-9.7	5.0	-13.8	22.0	2.2
Cotton	-55.3	52.4	-80.5	-28.0	-88.9	150.0
Sisal	-1.3	-12.1	2.9	-3.1	-17.9	0.7
Pyrethrum extract	34.8	15.1	4.2	-21.9	-28.7	-24.3

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

¹Except pyrethrum, which is expressed in metric tons.

²No purchases of rice paddy by the National Cereals and Produce Board in 1990.

Table 8. Kenya: Value of Agricultural Production Sold to the Marketing Boards, 1991-96

	1991	1992	1993	1994	1995	1996
(In millions of Kenya shillings)						
Coffee	4,053	4,365	7,696	11,758	15,289	14,358
Tea	7,801	8,933	19,867	18,300	16,596	20,336
Maize	927	1,539	1,959	3,002	3,208	3,118
Wheat	999	705	413	1,262	1,632	2,114
Sugarcane	2,147	2,304	3,171	5,178	6,824	7,126
Sisal	366	335	338	377	535	546
Pyrethrum extract	331	381	397	374	442	334
Livestock and derivatives	6,420	6,404	7,803	9,646	12,696	12,852
Other	1,513	1,479	1,578	2,456	2,574	2,878
Total	24,558	26,444	43,223	52,352	59,795	63,662
(In percentage of total value)						
Coffee	16.5	16.5	17.8	22.5	25.6	22.6
Tea	31.8	33.8	46.0	35.0	27.8	31.9
Maize	3.8	5.8	4.5	5.7	5.4	4.9
Wheat	4.1	2.7	1.0	2.4	2.7	3.3
Sugarcane	8.7	8.7	7.3	9.9	11.4	11.2
Sisal	1.5	1.3	0.8	0.7	0.9	0.9
Pyrethrum extract	1.3	1.4	0.9	0.7	0.7	0.5
Livestock and derivatives	26.1	24.2	18.1	18.4	21.2	20.2
Other	6.2	5.6	3.7	4.7	4.3	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

Table 9. Kenya: Average Prices to Producers For Selected Commodities, 1991-96¹

	1991	1992	1993	1994	1995	1996
(Kenya shillings per hundred kilograms, unless otherwise indicated)						
Coffee	4,654	4,937	9,886	14,428	15,966	13,914
Tea	3,848	4,570	9,241	8,738	6,787	7,908
Maize	306	475	810	950	800	1,055
Wheat	500	560	565	1,200	1,300	1,626
Sugar cane (per ton)	521	630	826	1,553	1,691	1,729
Seed cotton	998	990	1,323	1,914	1,720	2,136
Sisal	944	980	989	1,100	1,915	1,943
Pyrethrum extract (per kilogram)	1,800	1,800	1,800	2,175	3,600	3,600
Beef (third grade)	2,500	2,600	2,710	3,000	3,300	3,400
Bacon	2,911	3,917	5,466	5,964	6,500	6,600
Milk (per hundred liters)	440	580	780	1,250	1,450	1,250
(Annual percentage change)						
Coffee	28.0	6.1	100.2	45.9	10.7	-12.9
Tea	9.3	18.8	102.2	-5.4	-22.3	16.5
Maize	16.8	55.2	70.5	17.3	-15.8	31.9
Wheat	11.1	12.0	0.9	112.4	8.3	25.1
Sugarcane (per ton)	16.6	20.9	31.1	88.0	8.9	2.2
Seed cotton	1.7	-0.8	33.6	44.6	-10.1	24.2
Sisal	2.8	3.8	0.9	11.2	74.1	1.5
Pyrethrum extract (per kilogram)	0.0	0.0	0.0	20.8	65.5	0.0
Beef (third grade)	13.6	4.0	4.2	10.7	10.0	3.0
Bacon	24.1	34.6	39.5	9.1	9.0	1.5
Milk (per hundred liters)	1.1	31.8	34.5	60.3	16.0	-13.8

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

¹These prices are for calendar-year deliveries and reflect actual payouts, although average prices for two seasons that overlap during a calendar year may have differed. For coffee and tea, the prices are processed coffee and made tea, respectively.

Table 10. Kenya: Quantity Index of Manufacturing Output, 1991-96

	1991	1992	1993	1994	1995	1996
	(1976=100)					
Food processing	174.7	168.3	168.2	167.7	194.3	197.2
Beverages and tobacco	203.9	235.7	234.6	219.3	230.8	204.6
Textiles	218.5	218.5	252.0	186.9	136.5	136.7
Clothing	323.6	320.6	292.4	183.9	153.0	149.5
Leather and footwear	101.5	97.1	87.9	96.8	65.7	68.2
Wood and cork products	73.1	74.0	73.7	76.0	73.4	73.9
Furniture and fixtures	70.8	46.8	49.6	50.6	52.5	57.9
Paper and paper products	214.6	257.7	180.5	155.6	153.0	182.5
Printing and publishing	405.8	411.2	411.2	424.8	451.6	465.1
Basic industrial chemicals	233.8	234.0	244.6	213.0	209.0	211.3
Petroleum and other chemicals	510.7	481.8	469.2	453.6	492.0	538.3
Rubber products	322.4	630.3	622.4	613.7	621.0	641.2
Plastic products	374.0	323.7	357.2	362.6	384.7	403.2
Clay and glass products	259.3	575.2	1,199.0	1,770.6	2,099.9	2,394.8
Nonmetallic minerals	174.4	205.7	201.5	211.7	209.6	217.4
Metal products	203.1	183.8	184.2	205.0	206.8	237.2
Nonelectrical machinery	101.0	95.3	94.6	100.3	78.1	108.7
Electrical machinery	259.7	251.5	224.5	226.2	253.7	271.7
Transport equipment	662.0	603.7	541.2	571.4	529.0	662.3
Miscellaneous manufactures	441.0	442.9	442.9	442.9	472.3	637.9
Total manufacturing	242.3	245.4	249.9	254.7	264.5	273.6
	(Annual percentage change)					
Food processing	0.9	-3.7	-0.1	-0.3	15.9	1.5
Beverages and tobacco	-3.2	15.6	-0.5	-6.5	5.2	-11.4
Textiles	-4.1	0.0	15.3	-25.8	-27.0	0.1
Clothing	-6.8	-0.9	-8.8	-37.1	-16.8	-2.3
Leather and footwear	2.3	-4.3	-9.5	10.1	-32.1	3.8
Wood and cork products	4.1	1.2	-0.4	3.1	-3.4	0.7
Furniture and fixtures	-3.9	-33.9	6.0	2.0	3.8	10.3
Paper and paper products	5.2	20.1	-30.0	-13.8	-1.7	19.3
Printing and publishing	1.0	1.3	0.0	3.3	6.3	3.0
Basic industrial chemicals	10.6	0.1	4.5	-12.9	-1.9	1.1
Petroleum and other chemicals	11.6	-5.7	-2.6	-3.3	8.5	9.4
Rubber products	-1.1	95.5	-1.3	-1.4	1.2	3.3
Plastic products	64.5	-13.4	10.3	1.5	6.1	4.8
Clay and glass products	-29.4	121.8	108.4	47.7	18.6	14.0
Nonmetallic minerals	4.4	17.9	-2.0	5.1	-1.0	3.7
Metal products	14.7	-9.5	0.2	11.3	0.9	14.7
Nonelectrical machinery	-2.7	-5.6	-0.7	6.0	-22.1	39.2
Electrical machinery	36.5	-3.2	-10.7	0.8	12.2	7.1
Transport equipment	-2.1	-8.8	-10.4	5.6	-7.4	25.2
Miscellaneous manufactures	8.6	0.4	0.0	0.0	6.6	35.1
Total manufacturing	2.8	1.3	1.8	1.9	3.8	3.4

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

Table 11. Kenya: Selected Statistics on Construction Activity, 1991-96

	1991	1992	1993	1994	1995	1996
Cement consumption (in thousands of tons)	1,128	1,118	894	858	1,065	1,160
Real value added of construction sector (in millions of Kenya shillings at 1982 prices)	4,074	3,953	3,760	3,888	4,087	4,028
Employment (in thousands)	72.4	73.4	72.7	73.1	76.4	78.8
Value of building plans approved (in millions of Kenya shillings)	5,982	5,345	6,662	8,269	12,755	15,125
New private buildings in main towns						
Number	916	1,607	1,359	1,133	1,343	1,492
Value (in millions of Kenya shillings)	1,270	1,256	1,010	1,139	1,324	1,465
New public buildings in main towns						
Number	197	186	160	156	142	109
Value (in millions of Kenya shillings)	80	76	68	66	60	46

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

Table 12. Kenya: Energy Supply-and-Demand Balances, 1991-96

	1991	1992	1993	1994	1995	1996
Petroleum						
	(In thousands of tons)					
Demand	2,482.2	2,601.6	2,528.9	2,552.8	2,526.3	2,784.2
Domestic demand	1,847.0	1,958.8	1,928.2	2,105.5	2,159.2	2,333.4
Liquefied gas	25.0	27.4	25.1	28.4	31.2	31.2
Premium and regular gasoline	339.3	346.8	352.0	352.2	378.7	399.3
Aviation spirit	6.8	7.7	8.5	7.2	5.7	4.6
Jet/turbo fuel	253.5	312.5	342.8	474.4	433.7	444.6
Illuminating kerosene	174.5	175.1	164.8	173.1	243.1	253.8
Light diesel oil	559.9	571.1	554.2	539.8	603.1	646.3
Heavy diesel oil	30.5	27.9	23.0	24.3	23.5	26.6
Fuel oil	365.6	370.9	355.9	409.4	347.5	424.2
Refinery usage	91.9	119.4	101.9	96.7	92.7	102.8
Export demand	635.2	642.8	600.7	447.3	367.1	450.8
Supply	2,482.2	2,601.6	2,528.9	2,552.8	2,526.3	2,784.2
Imports of crude oil	2,059.4	2,235.3	2,274.2	2,173.2	1,680.3	1,412.9
Petroleum fuels	35.1	93.0	311.1	314.3	719.7	963.9
Adjustment	387.7	273.3	-56.4	65.3	126.3	407.4
Electricity						
	(In millions of kilowatt-hours)					
Demand	3,361.0	3,455.0	3,669.0	3,803.0	3,925.0	4,138.0
Domestic and small commercial	823.0	877.0	927.0	977.0	1,026.0	1,049.0
Large industrial and commercial	1,832.0	1,835.0	1,915.0	1,955.0	1,995.0	2,179.0
Off peak	109.0	104.0	115.0	125.0	124.0	100.0
Street lighting	14.0	14.0	13.0	10.0	19.0	12.0
Rural electrification	76.0	85.0	104.0	138.0	125.0	138.0
Unallocated	507.0	540.0	595.0	598.0	636.0	660.0
Supply	3,361.0	3,455.0	3,669.0	3,803.0	3,925.0	4,138.0
Net generation	3,227.0	3,215.0	3,396.0	3,539.0	3,753.0	3,989.0
Imports from Uganda	134.0	240.0	273.0	264.0	172.0	149.0

Sources: Government of Kenya, *Statistical Abstract* and *Economic Survey*, various issues; and Fund staff estimates.

Table 13. Kenya: Employment by Industry and Sector, 1991-96

	1991	1992	1993	1994	1995	1996	1991	1992	1993	1994	1995	1996
	1,441,772	1,462,086	1,474,866	1,504,427	1,557,027	1,606,800	2.3	1.4	0.9	2.0	3.5	3.2
Total employment												
Employment by private sector												
Agriculture and forestry	726,553	768,361	789,515	816,808	867,003	917,000	2.4	5.8	2.8	3.5	6.1	5.8
Mining and quarrying	200,875	202,977	205,924	212,769	226,812	236,600	-0.8	1.0	1.5	3.3	6.6	4.3
Manufacturing	3,586	3,663	3,778	3,881	4,003	4,100	5.5	2.1	3.1	2.7	3.1	2.4
Electricity and water	149,793	151,002	154,259	158,337	165,478	172,300	2.5	0.8	2.2	2.6	4.5	4.1
Building and construction	520	1,109	1,154	1,159	1,256	1,300	4.0	113.3	4.1	0.4	8.4	3.5
Wholesale and retail trade	40,697	41,995	42,443	43,998	47,107	49,600	10.6	3.2	1.1	3.7	7.1	5.3
Transport and communications	108,827	111,071	114,093	119,728	127,921	137,300	4.0	2.1	2.7	4.9	6.8	7.3
Finance, insurance, and business services	27,216	33,831	36,415	37,198	38,089	39,400	4.3	24.3	7.6	2.2	2.4	3.4
Community, social, and personal services	47,309	51,453	54,831	57,075	59,723	62,600	0.4	8.8	6.6	4.1	4.6	4.8
	147,730	171,260	176,618	182,663	196,614	213,800	3.7	15.9	3.1	3.4	7.6	8.7
Employment by public sector												
Agriculture and forestry	715,219	693,725	685,351	687,619	690,024	689,800	2.2	-3.0	-1.2	0.3	0.3	0.0
Mining and quarrying	71,140	70,912	68,344	67,934	67,233	66,400	5.7	-0.3	-3.6	-0.6	-1.0	-1.2
Manufacturing	754	741	717	717	717	700	7.7	-1.7	-3.2	0.0	0.0	-2.4
Electricity and water	39,080	39,294	39,278	39,311	39,312	38,200	-6.1	0.5	0.0	0.1	0.0	-2.8
Building and construction	21,916	21,264	20,936	20,820	21,586	22,000	0.1	-3.0	-1.5	-0.6	3.7	1.9
Wholesale and retail trade	31,738	31,163	30,218	29,323	29,338	29,200	-8.3	-1.8	-3.0	-3.0	0.1	-0.5
Transport and communications	7,916	7,453	6,938	6,942	6,966	7,000	-14.9	-5.8	-6.9	0.1	0.3	0.5
Finance, insurance, and business services	48,974	43,114	40,907	40,653	40,975	40,900	1.2	-12.0	-5.1	-0.6	0.8	-0.2
Community, social, and personal services	19,019	19,159	17,804	17,892	18,321	18,400	4.5	0.7	-7.1	0.5	2.4	0.4
	474,682	460,625	460,209	464,027	465,576	467,000	3.7	-3.0	-0.1	0.8	0.3	0.3

1 3 1

Source: Government of Kenya, *Statistical Abstract*, various issues.

Table 14. Kenya: Average Wage Earnings per Employee by Industry and Sector, 1991-96

	1991	1992	1993	1994	1995	1996	1991	1992	1993	1994	1995	1996
						Estimate						
	(In Kenya shillings)						(Annual percentage change)					
Private and public sector	36,747	41,706	47,415	56,019	68,127	83,020	9.7	13.5	13.7	18.1	21.6	21.9
Private sector												
Agriculture and forestry	38,415	43,236	50,813	61,661	74,411	86,312	18.7	12.6	17.5	21.3	20.7	16.0
Mining and quarrying	12,956	15,766	19,169	24,017	28,976	35,621	13.6	21.7	21.6	25.3	20.6	22.9
Manufacturing	25,948	29,319	34,191	39,494	46,638	55,122	13.9	13.0	16.6	15.5	18.1	18.2
Electricity and water	41,170	45,786	52,319	61,319	76,907	94,243	8.9	11.2	14.3	17.2	25.4	22.5
Building and construction	42,450	37,776	47,679	49,714	80,557	101,538	6.8	-11.0	26.2	4.3	62.0	26.0
Wholesale and retail trade	31,605	36,103	43,082	51,615	65,375	80,847	11.7	14.2	19.3	19.8	26.7	23.7
Transport and communications	53,640	59,957	69,532	82,708	103,397	127,837	7.9	11.8	16.0	19.0	25.0	23.6
Finance, insurance, and business services	61,911	60,710	78,648	93,898	114,902	140,000	8.4	-1.9	29.5	19.4	22.4	21.8
Community, social, and personal services	81,998	93,095	104,790	118,910	144,080	173,259	10.7	13.5	12.6	13.5	21.2	20.3
	42,901	46,352	54,037	70,526	79,549	75,772	59.7	8.0	16.6	30.5	12.8	-4.7
Public sector												
Agriculture and forestry	35,054	40,011	43,501	49,317	60,230	78,643	1.2	14.1	8.7	13.4	22.1	30.6
Mining and quarrying	19,642	21,129	23,124	27,814	37,176	47,741	9.6	7.6	9.4	20.3	33.7	28.4
Manufacturing	53,114	55,484	60,577	66,192	76,195	85,714	3.0	4.5	9.2	9.3	15.1	12.5
Electricity and water	34,988	38,416	42,393	49,754	65,642	76,545	5.6	9.8	10.4	17.4	31.9	16.6
Building and construction	59,076	63,856	73,297	85,382	99,489	114,727	9.0	8.1	14.8	16.5	16.5	15.3
Wholesale and retail trade	31,283	35,480	38,455	48,190	58,024	71,301	20.7	13.4	8.4	25.3	20.4	22.9
Transport and communications	50,979	57,890	63,014	69,561	86,920	102,286	8.4	13.6	8.9	10.4	25.0	17.7
Finance, insurance, and business services	53,608	63,356	61,135	75,082	93,079	115,403	11.0	18.2	-3.5	22.8	24.0	24.0
Community, social, and personal services	105,312	111,783	123,466	134,480	173,052	212,717	6.2	6.1	10.5	8.9	28.7	22.9
	31,489	36,775	40,615	45,011	53,667	73,101	-3.6	16.8	10.4	10.8	19.2	36.2

Source: Government of Kenya, *Statistical Abstract*, various issues.

Table 15. Kenya: Employment and Earnings in the Public Sector, 1991-96

	1991	1992	1993	1994	1995	1996 Estimate	1991	1992	1993	1994	1995	1996	1991	1992	1993	1994	1995	1996	
Employment	715.2	693.7	685.4	687.6	690.0	689.8	2.2	-3.0	-1.2	0.3	0.3	0.0							
Central government	273.7	269.0	267.7	259.3	251.7	242.4	0.0	-1.7	-0.5	-3.1	-2.9	-3.7							
Teachers Service Commission	219.1	208.6	211.7	222.6	231.7	239.9	7.9	-4.8	1.5	5.1	4.1	3.5							
Parastatal bodies ¹	117.3	115.3	107.7	106.9	106.8	107.5	-0.1	-1.7	-6.6	-0.7	-0.1	0.7							
Majority control by the public sector ²	52.8	50.0	48.9	48.8	48.5	47.9	-2.2	-5.3	-2.2	-0.2	-0.6	-1.2							
Local governments	52.3	50.8	49.4	50.0	51.3	52.1	1.2	-2.9	-2.9	1.4	2.6	1.5							
	(Annual percentage change)																		
	(In thousands)																		
	(In millions of Kenya shillings)																		
Gross earnings	27,062	29,508	32,028	38,054	44,994	54,250	11.6	9.0	8.5	18.8	18.2	20.6							
Central government	11,124	12,396	13,208	14,888	17,476	19,678	8.6	11.4	6.6	12.7	17.4	12.6							
Teachers Service Commission	6,682	7,126	7,952	10,064	11,810	15,206	23.1	6.6	11.6	26.6	17.3	28.8							
Parastatal bodies ¹	5,200	5,634	6,130	7,092	8,114	9,566	5.6	8.3	8.8	15.7	14.4	17.9							
Majority control by the public sector ²	2,384	2,570	2,854	3,464	4,278	5,274	9.1	7.8	11.1	21.4	23.5	23.3							
Local governments	1,672	1,782	1,884	2,546	3,316	4,526	14.4	6.6	5.7	35.1	30.2	36.5							
	(In Kenya shillings)																		
Average monthly earnings	3,153	3,545	3,894	4,612	5,434	6,554	9.2	12.4	9.9	18.4	17.8	20.6							
Central government	3,387	3,840	4,112	4,785	5,307	6,765	8.6	13.4	7.1	16.4	10.9	27.5							
Teachers Service Commission	2,541	2,847	3,130	3,768	5,145	5,282	14.0	12.0	10.0	20.4	36.6	2.7							
Parastatal bodies ¹	3,694	4,072	4,743	5,529	6,003	7,416	5.7	10.2	16.5	16.6	8.6	23.5							
Majority control by the public sector ²	3,763	4,283	4,864	5,915	6,221	9,175	11.5	13.8	13.5	21.6	5.2	47.5							
Local governments	2,663	2,922	3,181	4,242	5,439	7,239	13.0	9.7	8.9	33.3	28.2	33.1							

Source: Government of Kenya, *Statistical Abstract*, various issues.

¹Includes Kenya Railways, Kenya Ports Authority, Kenya Post and Telecommunications Corporation, and Kenya Airways.
²Corporations.

Table 16. Kenya: Consumer Price Indices (CPI), December 1994-March 1998¹

	1994		1995			1996			1997			1998		
	December	March	June	September	December	March	June	September	December	March	June	September	December	March
Lower-income group CPI	446	466	466	474	476	491	511	524	529	580	585	569	570	621
Food	421	447	446	454	459	469	492	509	507	584	594	563	561	607
Drinks and tobacco	469	476	477	494	505	522	525	545	567	567	567	580	588	598
Clothing and footwear	342	337	309	308	308	325	351	351	364	361	349	376	378	378
Rent	542	568	569	578	581	600	623	639	645	708	714	694	696	758
Fuel and power	336	344	384	388	384	390	426	427	442	435	428	451	460	563
Household equipment	356	390	377	377	376	394	388	410	411	414	422	421	426	427
Health and personal care	378	378	397	403	394	409	418	416	419	422	421	425	429	487
Transport and communications	377	373	380	409	409	409	410	411	467	467	467	479	482	661
Recreation and education	565	566	576	576	577	628	632	632	633	665	660	660	669	700
Miscellaneous goods and services	297	304	306	306	305	308	331	331	329	321	300	303	316	336
Middle-income group CPI	477	486	500	506	513	535	549	556	566	579	590	607	620	647
Food	437	465	475	478	480	498	524	530	531	563	591	585	598	631
Drinks and tobacco	407	423	420	431	449	459	461	494	505	522	519	536	541	558
Clothing and footwear	412	408	396	405	405	413	430	430	462	460	454	489	503	508
Rent	605	620	634	642	651	679	697	706	719	735	749	771	787	821
Fuel and power	323	336	347	353	360	373	378	378	410	409	412	458	462	484
Household equipment	499	464	492	499	506	520	539	543	543	546	547	570	574	581
Health and personal care	430	437	456	475	485	498	505	514	517	516	516	531	568	578
Transport and communications	508	510	529	529	550	559	561	564	577	567	584	629	641	692
Recreation and education	341	349	364	366	372	427	427	436	436	456	455	455	470	491
Miscellaneous goods and services	380	380	412	416	423	437	441	441	453	449	438	447	453	469
Upper-income group CPI	493	485	497	510	519	540	551	556	577	595	603	629	639	660
Food	495	496	479	498	510	511	527	529	541	585	598	597	608	650
Drinks and tobacco	530	539	526	541	586	582	581	598	640	643	670	695	700	764
Clothing and footwear	448	421	404	424	432	442	467	467	487	512	518	562	577	606
Rent	576	550	581	595	607	631	643	650	674	695	704	734	746	770
Fuel and power	416	429	431	435	443	454	459	459	494	493	496	553	556	555
Household equipment	405	361	386	402	396	406	418	435	440	443	434	457	460	474
Health and personal care	460	469	475	493	504	518	523	526	537	547	550	558	579	591
Transport and communications	656	686	684	684	700	711	716	717	760	755	779	849	863	850
Recreation and education	323	340	369	373	385	477	482	487	488	530	530	526	537	560
Miscellaneous goods and services	373	365	370	381	364	365	382	380	395	395	393	397	406	413

(February-March 1986 = 100; end-period data)

Table 16 (concluded). Kenya: Consumer Price Indices (CPI), December 1994-March 1998¹

	1994			1995			1996			1997			1998	
	December	March	June	September	December	March	June	September	December	March	June	September	December	March
Composite index ²														
Food	426	452	453	460	464	476	499	514	513	580	594	568	570	613
Drinks and tobacco	457	467	466	482	495	510	512	536	556	559	559	573	581	593
Clothing and footwear	359	354	329	331	331	346	370	370	387	385	375	404	408	411
Rent	556	578	583	592	596	617	639	654	661	713	721	711	716	771
Fuel and power	335	344	377	382	380	388	416	417	436	431	426	455	462	546
Household equipment	387	405	401	403	403	421	420	438	439	442	448	453	458	460
Health and personal care	391	393	411	420	415	430	438	439	442	444	444	450	461	508
Transport and communications	411	409	418	441	445	448	448	450	497	494	498	519	524	672
Recreation and education	512	515	527	528	529	582	586	588	588	618	614	614	624	653
Miscellaneous goods and services	316	321	329	330	331	336	355	355	356	349	331	335	347	365
Overall index	453	470	474	481	485	502	520	531	537	580	586	578	582	627
Overall index, excluding rent	416	431	434	441	445	460	477	487	493	532	538	530	534	575
Overall index, excluding food	470	482	487	495	498	518	533	542	553	578	580	584	590	637
Overall index, excluding food and rent	406	410	415	422	423	443	452	458	471	476	473	487	494	535
Composite index														
Food	1.1	-5.6	-3.4	1.5	8.9	5.2	10.3	11.7	10.5	21.8	18.9	10.5	11.0	5.7
Drinks and tobacco	1.7	11.4	1.0	10.9	8.3	9.3	9.9	11.1	12.2	9.6	9.1	7.0	4.6	6.1
Clothing and footwear	21.9	15.0	7.9	-2.9	-7.8	-2.3	12.5	11.9	16.9	11.4	1.3	9.2	5.6	6.6
Rent	6.2	-0.8	0.2	4.3	7.3	6.8	9.7	10.4	10.8	15.6	12.8	8.8	8.4	8.2
Fuel and power	9.6	13.4	13.0	18.8	13.4	12.9	10.5	9.3	14.8	10.9	2.3	8.9	6.0	26.9
Household equipment	-7.3	-7.5	-2.3	5.0	4.3	3.9	4.8	8.6	8.8	5.1	6.7	3.5	4.3	4.1
Health and personal care	8.9	0.8	7.6	8.8	6.2	9.6	6.6	4.6	6.5	3.2	1.4	2.6	4.3	14.4
Transport and communications	13.4	9.8	9.5	14.2	8.5	9.5	7.2	2.0	11.5	10.5	11.2	15.4	5.5	35.9
Recreation and education	47.8	10.7	12.1	10.8	3.3	13.0	11.1	11.4	11.1	6.1	4.9	4.4	6.1	5.7
Miscellaneous goods and services	3.2	2.2	3.5	4.4	4.9	4.6	7.9	7.5	7.6	3.9	-6.9	-5.6	-2.7	4.6
Overall index	6.5	-0.8	0.1	4.1	7.0	6.7	9.7	10.4	10.8	15.6	12.8	8.8	8.3	8.1
Overall index, excluding rent	6.6	-0.7	0.1	4.0	6.9	6.6	9.7	10.4	10.8	15.7	12.9	8.8	8.3	8.1
Overall index, excluding food	10.1	2.5	3.2	6.2	5.9	7.3	9.3	9.5	11.0	11.8	9.0	7.7	6.7	10.1
Overall index, excluding food and rent	14.7	6.5	6.8	8.4	4.2	7.9	8.9	8.5	11.3	7.5	4.7	6.4	4.9	12.5

(February-March 1986 = 100; end-period data)

(Twelve-month percentage change; end-period data)

Source: Kenya Central Bureau of Statistics.

¹For Nairobi.

²Weighted average, with a weight of 76.8 percent for the lower-income index, 20.9 percent for the middle-income index, and 2.3 percent for the upper-income index.

Table 17. Kenya: Average Consumer Price Indices for Urban Centers, 1992-97

	1992	1993	1994	1995	1996	1997
	(Indices)					
Urban population						
Nairobi ¹						
Lower income	246.4	359.2	463.5	467.1	508.3	569.4
Middle income	256.6	374.3	478.8	498.0	546.6	592.7
Upper income	242.8	371.9	485.8	504.5	549.5	609.0
Mombasa ²	593.2	920.0	1,132.7	1,190.7	1,286.2	1,430.6
Kisumu ²	563.7	878.0	1,108.1	1,137.1	1,251.5	1,394.9
Nakuru ²	627.7	976.3	1,223.9	1,235.6	1,360.4	1,483.9
	(Annual percentage change)					
Nairobi ¹						
Lower income	29.5	45.8	29.0	0.8	8.8	12.0
Middle income	21.2	45.9	27.9	4.0	9.8	8.4
Upper income	16.3	53.2	30.6	3.8	8.9	10.8
Mombasa ²	17.8	55.1	23.1	5.1	8.0	11.2
Kisumu ²	18.4	55.8	26.2	2.6	10.1	11.5
Nakuru ²	36.0	55.5	25.4	1.0	10.1	9.1

Source: Government of Kenya, *Economic Survey*, various issues.

¹February-March 1986 = 100.

²1976 = 100; these indices refer to households in the lower- and middle-income groups and exclude rent.

Table 18. Kenya: Central Government Fiscal Operations, 1991/92-1996/97¹

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 Estimate
(In millions of Kenya shillings)						
Revenue and grants	63,217	73,603	106,848	130,639	151,316	155,032
Revenue	58,580	69,661	102,823	125,131	145,502	149,249
Grants	4,637	3,942	4,025	5,508	5,814	5,783
Expenditure and net lending	70,345	102,460	130,950	135,160	152,187	168,403
Recurrent expenditure ²	57,026	84,118	106,416	105,487	122,907	139,742
Development expenditure and net lending	13,319	18,342	24,534	29,673	29,280	28,661
Overall balance, excluding grants ³	-11,765	-32,799	-28,127	-10,029	-6,685	-19,154
Overall balance, including grants ³	-7,128	-28,857	-24,102	-4,521	-871	-13,371
Adjustment to cash basis	0	5,116	-933	-33	-1,026	3,518
Overall cash balance, excluding grants	-11,765	-27,683	-29,060	-10,062	-7,711	-15,636
Overall cash balance, including grants	-7,128	-23,741	-25,035	-4,554	-1,897	-9,853
Financing	7,128	23,741	25,035	4,554	1,897	9,853
Foreign (net)	230	6,360	560	-4,420	138	-6,634
Domestic (net)	6,898	17,381	24,475	8,974	-2,087	15,352
Privatization receipts	0	0	0	0	3,846	1,135
(In percent of GDP)						
Revenue and grants	26.0	24.6	29.1	30.5	31.1	27.3
Revenue	24.1	23.3	28.0	29.2	29.9	26.3
Grants	1.9	1.3	1.1	1.3	1.2	1.0
Expenditure and net lending	29.0	34.3	35.7	31.6	31.3	29.6
Recurrent expenditure ²	23.5	28.1	29.0	24.6	25.3	24.6
Development expenditure and net lending	5.5	6.1	6.7	6.9	6.0	5.0
Overall balance, excluding grants ³	-4.8	-11.0	-7.7	-2.3	-1.4	-3.4
Overall balance, including grants ³	-2.9	-9.6	-6.6	-1.1	-0.2	-2.4
Adjustment to cash basis	0.0	1.7	-0.3	0.0	-0.2	0.6
Overall cash balance, excluding grants	-4.8	-9.3	-7.9	-2.4	-1.6	-2.8
Overall cash balance, including grants	-2.9	-7.9	-6.8	-1.1	-0.4	-1.7
Financing	2.9	7.9	6.8	1.1	0.4	1.7
Foreign (net)	0.1	2.1	0.2	-1.0	0.0	-1.2
Domestic (net)	2.8	5.8	6.7	2.1	-0.4	2.7
Privatization receipts	0.0	0.0	0.0	0.0	0.8	0.2
Memorandum item:						
GDP (in millions of Kenya shillings)	242,861	299,043	367,146	428,166	485,875	568,152

Sources: Kenyan authorities; and Fund staff estimates.

¹July-June fiscal year.

²Includes items in transit.

³On a commitment basis.

Table 19. Kenya: Central Government Revenue and Grants, 1991/92-1996/97¹

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 Estimate
(In millions of Kenya shillings)						
Tax revenue	47,305	57,608	91,537	108,516	123,008	129,230
Taxes on income and profits	17,026	19,959	36,570	43,287	48,054	49,266
Taxes on goods and services	25,261	29,912	40,276	44,918	52,203	55,279
Value-added tax	18,660	22,143	29,049	24,298	28,404	29,050
Local manufactures	6,712	8,181	13,025	13,319	14,751	14,864
Imported manufactures	11,948	13,962	16,024	10,979	13,653	14,186
Excise duties	6,601	7,769	11,227	19,332	22,612	24,788
Other taxes and licenses	0	0	0	1,288	1,187	1,441
Taxes on international trade	5,019	7,140	14,691	18,598	21,176	22,773
Import duties	5,018	7,139	14,691	18,598	21,176	22,773
Export duties	1	1	0	0	0	0
Other taxes	0	597	0	1,713	1,576	1,912
Nontax revenue	11,274	12,053	11,286	16,615	22,494	20,019
Property income	...	...	1,604	3,802	8,401	6,469
Public enterprises and financial institutions	...	...	668	1,620	6,539	4,596
Central Bank of Kenya	...	...	0	844	5,883	3,813
Other profits and dividends	...	...	668	776	655	783
Loan interest receipts	...	...	257	1,014	750	680
Other property income	...	...	679	1,168	1,113	1,193
Administrative fees and charges	...	...	2,408	4,471	3,786	4,005
Other nontax revenue	...	...	7,274	8,342	10,307	9,545
Total revenue	58,580	69,661	102,823	125,131	145,502	149,249
Foreign grants	4,637	3,942	4,025	5,508	5,815	5,783
Cash grants	...	...	599	693	1,317	1,272
Grants under aid in appropriation	...	...	3,426	4,815	4,498	4,511
Total revenue and grants	63,217	73,603	106,848	130,639	151,317	155,032
(In percent of GDP)						
Tax revenue	19.5	19.3	24.9	25.3	25.3	22.7
Taxes on income and profits	7.0	6.7	10.0	10.1	9.9	8.7
Taxes on goods and services	10.4	10.0	11.0	10.5	10.7	9.7
Taxes on international trade	2.1	2.4	4.0	4.3	4.4	4.0
Other taxes	0.0	0.2	0.0	0.4	0.3	0.3
Nontax revenue	4.6	4.0	3.1	3.9	4.6	3.5
Total revenue	24.1	23.3	28.0	29.2	29.9	26.3
(In percent of total revenue)						
Tax revenue	80.8	82.7	89.0	86.7	84.5	86.6
Taxes on income and profits	29.1	28.7	35.6	34.6	33.0	33.0
Taxes on goods and services	43.1	42.9	39.2	35.9	35.9	37.0
Taxes on international trade	8.6	10.2	14.3	14.9	14.6	15.3
Other taxes	0.0	0.9	0.0	1.4	1.1	1.3
Nontax revenue	19.2	17.3	11.0	13.3	15.5	13.4

Sources: Kenyan authorities; and Fund staff estimates.

¹July-June fiscal year.

Table 20. Kenya: Economic Classification of Central Government Expenditure and Net Lending, 1991/92-1996/97¹

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 Estimate
(In millions of Kenya shillings)						
Recurrent expenditure	57,026	84,118	106,416	105,487	122,907	139,742
Goods and services	35,014	45,655	52,922	68,592	80,586	99,297
Wages and allowances	21,464	26,910	31,546	42,830	45,886	48,171
Other ²	13,550	18,745	21,376	25,762	34,700	51,126
Interest	15,059	34,425	46,652	31,823	37,245	34,786
Domestic	10,286	25,245	37,351	22,588	25,928	26,569
Foreign	4,773	9,180	9,301	9,235	11,317	8,217
Subsidies and transfers	6,953	4,038	6,842	5,072	5,076	5,659
General government	3,631	449	3	5	0	0
Households/nonprofit institutions	1,760	1,545	2,930	5,067	5,076	5,659
Export compensation	1,562	2,044	3,983	0	0	0
Other	0	0	-74	0	0	0
Development expenditure and net lending	13,319	18,342	24,534	29,673	29,280	28,661
Fixed investment	11,944	15,763	19,944	23,729	26,432	26,185
Net lending	1,102	876	2,516	1,592	2,848	2,476
Equity and capital transfers	273	1,703	2,074	4,352	0	0
Equity	90	500	74	70	0	0
Capital transfers	183	1,203	2,000	4,282	0	0
Total expenditure and net lending	70,345	102,460	130,950	135,160	152,187	168,403
(In percent of GDP)						
Recurrent expenditure	23.5	28.1	29.0	24.6	25.3	24.6
Wages and allowances	8.8	9.0	8.6	10.0	9.4	8.5
Interest payments	6.2	11.5	12.7	7.4	7.7	6.1
Subsidies and transfers	2.9	1.4	1.9	1.2	1.0	1.0
Other ²	5.6	6.3	5.8	6.0	7.1	9.0
Development expenditure and net lending	5.5	6.1	6.7	6.9	6.0	5.0
Total expenditure and net lending	29.0	34.3	35.7	31.6	31.3	29.6
(In percent of total expenditure)						
Recurrent expenditure	81.1	82.1	81.3	78.0	80.8	83.0
Wages and allowances	30.5	26.3	24.1	31.7	30.2	28.6
Interest payments	21.4	33.6	35.6	23.5	24.5	20.7
Subsidies and transfers	9.9	3.9	5.2	3.8	3.3	3.4
Other ²	19.3	18.3	16.3	19.1	22.8	30.4
Development expenditure and net lending	18.9	17.9	18.7	22.0	19.2	17.0

Sources: Kenyan authorities; and Fund staff estimates.

¹July-June fiscal year.

²1996/97 estimate includes unclassified spending commitments of K Sh 7,638 million (1.3 percent of GDP).

Table 21. Kenya: Functional Classification of Central Government Expenditure and Net Lending, 1991/92-1996/97¹

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 ² Estimate
(In millions of Kenya shillings)						
General administration	12,610	14,228	18,486	18,003	28,563	...
Defense	5,330	4,773	5,320	7,367	9,039	...
Social services	21,593	26,954	32,260	44,195	45,851	...
Education	15,307	18,117	22,575	30,717	31,723	...
Health	4,261	5,898	7,076	9,595	9,059	...
Housing, community, and social welfare	2,025	2,939	2,609	3,883	5,069	...
Economic services	15,753	22,080	26,514	32,857	27,787	...
General administration	2,379	1,876	2,729	2,637	2,446	...
Agriculture, forestry, and fishing	4,987	10,758	12,031	10,069	7,732	...
Mining, manufacturing, and construction	1,245	1,137	2,137	4,858	1,632	...
Electricity, water, gas, and steam	1,575	1,843	2,153	4,191	3,359	...
Roads	2,209	3,014	3,536	6,242	7,672	...
Transport and communications	987	1,085	2,473	3,336	3,925	...
Other	2,371	2,367	1,455	1,524	1,022	...
Interest	15,059	34,425	46,652	31,823	37,245	34,786
Unallocated	0	0	1,718	916	3,702	...
Total	70,345	102,460	130,950	135,160	152,187	168,403
(In percent of GDP)						
Administration ³	11.4	16.3	18.2	11.9	14.3	...
Defense	2.2	1.6	1.4	1.7	1.9	...
Education	6.3	6.1	6.1	7.2	6.5	...
Health and welfare	2.6	3.0	2.6	3.1	2.9	...
Economic services	6.5	7.4	7.2	7.7	5.7	...
Total	29.0	34.3	35.7	31.6	31.3	29.6
(In percent of total expenditure)						
Administration ³	39.3	47.5	51.1	37.5	45.7	...
Defense	7.6	4.7	4.1	5.5	5.9	...
Education	21.8	17.7	17.2	22.7	20.8	...
Health and welfare	8.9	8.6	7.4	10.0	9.3	...
Economic services	22.4	21.5	20.2	24.3	18.3	...

Sources: Kenyan authorities; and Fund staff estimates.

¹July-June fiscal year.

²The Ministry of Finance and Central Bureau of Statistics are recompiling data on the functional classification of central government expenditure, based on recommendations of the Fund STA multisector mission that visited Nairobi in January-February 1998.

³Includes interest payments and unallocated expenditure.

Table 22. Kenya: Local Government Finances, 1991/92-1996/97¹

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 Estimate
(In millions of Kenya shillings)						
Total receipts	4,031	4,883	5,729	6,063	6,727	7,319
Municipal councils	2,881	3,763	4,643	4,861	4,896	5,221
Taxes, licenses, and cesses	900	1,220	1,539	1,354	1,637	2,067
Property income	60	190	320	462	443	300
Sale of goods and services	1,919	2,351	2,783	3,045	2,778	2,845
Government grants	2	2	1	1	38	10
Town and county councils	1,150	1,120	1,086	1,202	1,831	2,098
Taxes, licenses, and cesses	304	299	293	406	478	663
Property income	16	15	13	44	628	102
Sale of goods and services	789	784	778	748	722	1,329
Government grants	41	22	2	4	3	5
Total outlays	7,411	8,415	9,416	13,540	10,600	12,690
Municipal councils ²	5,967	6,774	7,580	11,067	8,031	10,229
Current expenditure	2,192	2,636	3,079	3,774	4,712	5,435
Capital expenditure	3,423	3,799	4,175	6,966	3,017	4,613
Debt service ³	352	339	326	327	302	181
Town and county councils ²	1,444	1,641	1,836	2,473	2,569	2,461
Current expenditure	943	1,091	1,238	1,086	1,986	1,947
Capital expenditure	482	533	583	1,387	576	497
Debt service ³	19	17	15	0	7	17
Overall balance	-3,380	-3,532	-3,687	-7,477	-3,873	-5,371
Municipal councils	-3,086	-3,011	-2,937	-6,206	-3,135	-5,008
Town and county councils	-294	-521	-750	-1,271	-738	-363
(In percent of GDP)						
Total receipts	1.7	1.6	1.6	1.4	1.4	1.3
Total outlays	3.1	2.8	2.6	3.2	2.2	2.2
Current expenditure ²	1.3	1.2	1.2	1.1	1.4	1.3
Capital expenditure	1.6	1.4	1.3	2.0	0.7	0.9
Debt service ³	0.2	0.1	0.1	0.1	0.1	0.0
Overall balance	-1.4	-1.2	-1.0	-1.7	-0.8	-0.9

Sources: Kenyan authorities; and Fund staff estimates.

¹July-June fiscal year.

²Amortization payments included as an expenditure.

³Excludes interest payments.

Table 23. Kenya: Domestic Debt of the Central Government, 1991/92-1996/97¹

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 Estimate
(In millions of Kenya shillings)						
Treasury bills	14,881	63,919	83,610	75,399	81,140	92,977
Banks	7,353	31,960	21,199	35,678	47,776	51,906
Central bank	5,071	23,137	52	21	2,676	2,010
Commercial banks	2,282	8,823	21,147	35,657	45,100	49,896
Nonbanks	7,528	31,959	62,411	39,721	33,364	41,071
National Social Security Fund	4,158	6,866	6,866	2,459	4,800	1,937
Financial institutions	693	4,730	23,443	16,632	5,160	3,104
Other	2,677	20,363	32,102	20,630	23,404	36,030
Treasury bonds	35,169	38,551	50,875	15,619	8,574	16,613
Banks	9,108	13,395	29,069	658	536	4,225
Central bank	2,863	4,758	27,693	616	478	296
Commercial banks	6,245	8,637	1,376	42	58	3,929
Nonbanks	26,061	25,156	21,806	14,961	8,038	12,388
National Social Security Fund	10,350	8,650	8,650	8,650	5,650	3,260
Financial institutions	1,795	1,879	1,879	1,879	559	463
Other	13,916	14,627	11,277	4,432	1,829	8,665
Government stock	9,480	8,652	28,051	4,589	4,584	3,960
Banks	3,166	3,158	22,558	99	99	101
Central bank	3,065	3,058	22,458	0	0	0
Commercial banks	101	100	100	99	99	101
Nonbanks	6,314	5,494	5,493	4,490	4,485	3,859
National Social Security Fund	4,231	3,762	3,762	3,112	3,112	2,611
Financial institutions	71	71	70	68	68	59
Other	2,012	1,661	1,661	1,310	1,305	1,189
Total	59,530	111,122	162,536	95,607	94,298	113,550
Banks	19,627	48,513	72,826	36,435	48,411	56,232
Central bank	10,999	30,953	50,203	637	3,154	2,306
Commercial banks	8,628	17,560	22,623	35,798	45,257	53,926
Nonbanks	39,903	62,609	89,710	59,172	45,887	57,318
National Social Security Fund	18,739	19,278	19,278	14,221	13,562	7,808
Financial institutions	2,559	6,680	25,392	18,579	5,787	3,626
Other	18,605	36,651	45,040	26,372	26,538	45,884
Memorandum items:						
	(In percent of total)					
Banks	33.0	43.7	44.8	38.1	51.3	49.5
Nonbanks	67.0	56.3	55.2	61.9	48.7	50.5
National Social Security Fund	31.5	17.3	11.9	14.9	14.4	6.9
Financial institutions	4.3	6.0	15.6	19.4	6.1	3.2
Other	31.3	33.0	27.7	27.6	28.1	40.4

Source: Kenyan authorities.

¹Face value at the end of each fiscal year. Excludes bank overdrafts and advances, tax reserve certificates, sinking-fund holdings, and debts to domestic suppliers.

Table 24. Kenya: Operating Profits and Cash Position of Selected Public Enterprises, 1992/93-1996/97¹

	1992/93	1993/94	1994/95	1995/96	1996/97 Estimate
(In millions of Kenya shillings, unless otherwise specified)					
Operating balances ²					
Kenya Power and Lighting Corporation (KPLC)	-147	680	1,574	4,163	3,911
Kenya Posts and Telecommunications Company (KPTC)	4,506	5,308	2,886	4,142	3,456
Kenya Railways (KR) ³	62	429	421	-1,179	-1,604
National Cereals and Produce Board (NCPB)	-1,784	-2,522	-2,281	-2,030	-72
Kenya Ports Authority (KPA)	1,543	3,304	801	1,276	541
Total	4,180	7,199	3,400	6,372	6,231
(in percent of GDP)	1.4	2.0	0.8	1.3	1.1
Total excluding KPTC	-326	1,891	515	2,230	2,776
(in percent of GDP)	-0.1	0.5	0.1	0.5	0.5
Total excluding NCPB	5,964	9,721	5,681	8,402	6,304
(in percent of GDP)	2.0	2.6	1.3	1.7	1.1
Cash position ⁴					
KPLC	-150	-105	2,389	3,973	3,742
KPTC	-147	124	-888	312	675
KR	-106	-180	-312	-222	-604
NCPB	1,806	864	-525	-177	1,243
KPA	1,410	1,240	202	144	-281
Total	2,812	1,943	866	4,030	4,776
Total excluding KPTC	2,959	1,819	1,754	3,718	4,101
Total excluding NCPB	1,006	1,079	1,391	4,207	3,532
Memorandum item:					
GDP at current market prices	299,043	367,146	428,166	485,875	568,152

Sources: Kenyan authorities; and Fund staff estimates.

¹July-June fiscal year.

²Excludes foreign exchange losses/gains.

³Excludes land sales.

⁴As at end of period.

Table 25. Kenya: Central Bank of Kenya Balance Sheet, June 1993-December 1997

	1993		1994		1995		1996		1997			
	June	December	June	December	June	December	June	December	March	June	September	December
Net foreign assets ¹	-12,402	8,140	19,518	7,854	2,497	2,275	22,592	25,982	36,302	38,655	29,886	32,402
Net domestic assets	39,171	33,992	21,267	47,462	50,435	68,926	46,216	51,010	45,294	35,460	50,806	43,451
Domestic credit	29,949	26,956	11,818	31,849	37,911	59,893	37,138	41,650	37,683	28,424	47,542	46,243
Government (net)	10,708	15,472	-456	21,777	24,298	50,127	27,822	32,594	28,619	19,160	34,872	37,119
Advances and discounts to commercial banks	19,241	11,484	12,274	10,072	13,613	9,766	9,316	9,056	9,064	9,264	12,670	9,124
Other items (net)	9,222	7,036	9,449	15,613	12,524	9,033	9,078	9,360	7,611	7,036	3,264	-2,792
Reserve money	26,769	42,132	40,785	55,316	52,932	71,201	68,808	76,992	81,596	74,115	80,692	75,853
Currency outside banks	9,052	21,194	20,367	24,725	25,825	28,795	28,747	30,332	31,057	29,158	30,132	36,182
Bank reserves ²	17,717	20,938	20,418	30,591	27,107	42,406	40,061	46,660	50,539	44,957	50,560	39,671
Of which												
Required reserves	12,693		20,407	23,292	24,889	35,722	37,865	39,936	42,622	43,447	43,572	34,600
Net foreign assets	-9.8	65.0	119.2	-0.7	-41.7	-10.1	38.0	33.3	39.5	23.3	12.9	8.3
Net domestic assets	57.5	-1.2	-66.9	32.0	71.5	38.8	-8.0	-25.2	-20.1	-15.6	-3.5	-9.8
Of which												
Government (net)	-67.5	-18.1	-41.7	15.0	60.7	51.3	6.7	-24.6	-17.6	-12.6	-3.1	5.9
Reserve money												
Currency outside banks	20.1	49.0	42.3	8.4	13.4	7.4	5.5	2.2	3.4	0.6	3.2	7.6
Bank reserves ²	27.5	14.7	10.1	22.9	16.4	21.4	24.5	6.0	16.0	7.1	6.2	-9.1
Memorandum items:												
Reserve money (annual percentage change)	47.7	63.7	52.4	31.3	29.8	28.7	-3.4	8.1	19.3	7.7	9.4	-1.5
Statutory reserve requirement (in percent)	14.0	14.0	16.0	16.0	16.0	18.0	18.0	18.0	18.0	18.0	18.0	15.0
Commercial banks	0.0	0.0	0.0	10.0	10.0	18.0	18.0	18.0	18.0	18.0	18.0	15.0
Finance houses												

(In millions of Kenya shillings)

(Annual change in percent of beginning-of-period reserve money stock)

Sources: Central Bank of Kenya; and Fund staff estimates.

¹Valued at current exchange rates.

²From June 1995 onward includes nonbank financial institutions.

Table 26. Kenya: Monetary Survey, June 1993-December 1997¹

	1993		1994		1995		1996		1997			
	June	December	June	December	June	December	June	December	March	June	September	December
Net foreign assets ²	-2,763	20,640	24,426	13,291	10,258	6,913	26,640	28,645	38,225	40,070	35,756	34,849
Central bank	-12,402	8,140	19,518	7,854	2,497	2,275	22,592	25,982	36,302	38,655	29,886	32,402
Commercial banks	9,639	12,500	4,908	5,437	7,761	4,638	4,048	2,663	1,923	1,415	5,870	2,447
Net domestic assets	139,593	140,950	147,499	192,531	205,654	224,732	228,996	239,844	245,623	241,568	239,029	259,846
Domestic credit	137,264	153,490	159,960	204,187	224,551	249,513	254,349	272,521	285,761	285,682	295,991	315,213
Government (net)	36,338	50,080	44,958	76,117	75,571	78,486	69,616	74,794	81,166	72,942	72,315	83,559
Other public sector	3,565	4,398	4,974	5,752	5,592	5,368	4,077	5,697	5,543	5,628	6,681	8,171
Private sector	97,361	99,012	110,028	122,318	143,388	165,659	180,656	192,030	199,052	207,112	216,995	223,483
Other items (net)	2,329	-12,540	12,462	-11,656	-18,897	-24,781	-25,353	-32,677	-40,138	-44,114	-56,962	-55,367
Money and quasi money (M2)	136,830	161,590	171,925	205,822	215,911	231,645	255,636	268,489	283,848	281,637	274,785	294,694
Currency outside banks	17,717	21,194	20,367	24,725	25,825	28,795	28,747	30,394	31,012	29,158	30,132	36,182
Deposits	119,113	140,396	151,558	181,097	190,085	202,850	226,889	238,095	252,836	252,479	244,653	258,513
Memorandum items:												
Currency outside banks (M0)	39.2	23.6	15.0	16.7	26.8	16.5	11.3	5.6	8.0	1.4	2.6	19.0
Money and quasi money (M3)	27.3	22.3	25.6	27.4	25.6	12.5	18.4	15.9	16.2	10.2	7.5	9.8
M3 and foreign currency deposits (M3X)	...	...	...	...	...	14.1	...	15.9	15.6	9.9	9.4	11.9
Credit to private sector	13.7	3.7	13.0	23.5	30.3	35.4	...	15.9	15.2	14.6	17.1	16.4
Currency-deposit ratio (in percent)	14.9	15.1	13.4	13.7	13.6	14.2	...	12.8	12.3	11.5	12.3	14.0

(In millions of Kenya shillings)

(Annual percentage change, unless otherwise indicated)

Sources: Central Bank of Kenya; and Fund staff estimates.

¹Includes nonbank financial institutions.

²Valued at current exchange rates.

Table 27. Kenya: Commercial Banks' Liquidity, June 1993-December 1997

	1993		1994		1995		1996		1997	
	June	December	June	December	June	December	June	December	June	December
Deposit liabilities subject to requirements (in millions of Kenya shillings)	83,139	97,449	105,845	136,866	146,228	162,242	195,532	211,584	234,769	252,739
Liquid assets (in millions of Kenya shillings) <i>Of which</i>	29,643	50,264	53,258	71,411	67,428	66,722	82,451	85,804	97,752	94,161
Cash and deposits at central bank	7,479	20,387	24,117	31,371	26,540	33,961	36,670	42,426	46,323	41,350
Liquid assets (in percent)	36.0	50.0	47.0	53.0	47.0	41.1	42.2	40.6	41.6	37.3
Minimum statutory requirements (in percent)	20.0	20.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	20.0
Excess (+) or deficiency (-) (in percent)	16.0	30.0	22.0	28.0	22.0	16.0	17.0	16.0	17.0	17.0
Number of banks with liquidity ratio deficiency	4	2	5	6	6	4	3	1	3	2
Number of banks meeting the liquidity ratio requirement	28	28	28	28	32	37	45	49	50	51
Cash ratio (in percent, end of the period)	8	18	17	20	17	19	17	18	20	16
Number of banks below the cash ratio requirement ¹	4	2	4	0	3	2	1	1	1	0

Source: Central Bank of Kenya.

¹Defined as the ratio of commercial banks' balances at the central bank to their total deposits (excluding deposits by the central government and nonresidents) on a deferred basis.

Table 28. Kenya: Nonbank Financial Institutions' Liquidity, June 1993-December 1997¹

(In millions of Kenya shillings, unless otherwise indicated)

	1993		1994		1995		1996		1997	
	June	December	June	December	June	December	June	December	June	December
Total deposits	39,759	45,642	51,230	56,823	52,940	44,556	33,627	26,736	16,772	9,350
Liquid assets	13,570	23,448	26,428	28,653	21,508	17,090	12,236	9,490	6,422	4,838
Liquidity ratio (in percent)	32.0	50.0	51.0	51.0	42.0	38.0	36.0	35.0	38.0	32.0
Minimum statutory requirement (in percent)	24.0	24.0	30.0	28.0	30.0	25.0	25.0	25.0	25.0	20.0
Excess (in percent)	8.0	26.0	21.0	23.0	12.0	13.0	11.0	10.0	13.0	12.0
Treasury bills	5,498	16,018	23,055	20,364	15,055	5,561	2,488	1,122	964	1,650
Minimum requirement	6,785	11,724	13,214	14,326	10,754	n.a	n.a	n.a	n.a	n.a
Excess (+) or deficiency (-)	-1,287	4,294	9,841	6,038	4,301	n.a	n.a	n.a	n.a	n.a
Number of nonbank financial institutions (NBFIs) with liquidity ratio deficiency (-)	16	8	3	7	7	6	3	4	4	3
Number of NBFIs meeting the liquidity ratio requirements	43	43	48	44	36	27	21	15	13	12

Source: Central Bank of Kenya.

¹Building societies are not required to comply with the liquidity ratio requirements. These are Akiba Loans and Finance Company Ltd., Home Savings and Mortgage Ltd., Housing Finance Company of Kenya Ltd., Kenya Savings and Mortgages Ltd., and East Africa Building Society.

Table 29. Kenya: Principal Interest Rates, June 1993-December 1997

(In percent per annum)

	1993		1994		1995		1996		1997	
	June	December	June	December	June	December	June	December	June	December
Central Bank of Kenya										
Rediscount rate for treasury bills	75.5	44.5	33.5	20.5	18.8	23.5	26.0	26.9	24.0	32.2
Advance against treasury bills	75.5	44.5	33.5	20.5	18.8	23.5	26.0	26.9	24.0	32.2
Advance against Kenya government securities	75.5	44.5	33.5	20.5	18.8	23.5	26.0	26.9	24.0	32.2
Commercial banks										
Savings deposits (minimum)	10.2	11.3	10.3	8.6	6.6	6.9	7.6	8.0	10.6	10.7
Time deposits										
	13.7	18.7	13.8	11.2	8.5	11.3	13.1	13.3	13.7	16.1
Three months to less than six months	to	to	to	to	to	to	to	to	to	to
	21.8	33.1	21.3	15.9	11.1	16.3	18.0	18.1	17.0	17.5
	13.8	18.2	13.7	11.4	8.2	10.7	12.0	12.9	14.7	15.2
Six months to less than nine months	to	to	to	to	to	to	to	to	to	to
	21.1	30.3	20.1	15.8	10.0	14.3	16.2	17.2	15.4	16.1
	14.0	18.9	14.0	11.8	8.1	10.1	11.6	12.4	13.6	14.7
Nine months to less than twelve months	to	to	to	to	to	to	to	to	to	to
	21.7	32.5	21.5	16.8	10.4	13.5	16.5	16.6	14.7	15.2
Loans and advances (maximum)	28.4	38.6	36.6	30.9	26.6	33.1	34.3	34.4	29.9	29.0
Other financial institutions										
Deposit rates										
	13.5	14.0	13.5	8.0	9.0	8.0	7.0	8.0	8.0	8.0
Hire purchase	to	to	to	to	to	to	to	to	to	to
	38.0	52.0	45.0	17.5	15.5	18.5	25.0	23.0	17.7	21.7
Building societies	13.0	15.0	15.0	11.5	4.0	4.0	4.0	4.0	6.8	6.7
Lending rates	to	to	to	to	to	to	to	to	to	to
	15.0	19.0	19.0	30.0	30.0	30.0	28.0	28.0	17.3	19.0
Hire purchase	40.0	43.0	33.0	27.0	27.0	33.5	40.3	36.5	31.6	30.5
Building societies	21.0	29.0	29.0	29.0	29.0	30.0	31.0	31.0	24.6	24.7
Other interest rates										
Treasury bills (91-day)	70.6	39.3	30.0	17.8	15.8	20.9	20.9	21.5	21.4	27.2
Treasury bonds										
One year	37.7	27.9	...	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Two year	...	...	21.0	16.5	15.5	15.5	15.5	15.5	15.5	15.5
Three year	...	...	...	...	...	16.0	16.0	16.0	16.0	16.0

Source: Kenyan authorities.

Table 30. Kenya: Distribution of Commercial Bank Credit to Private Sector, December 1992-December 1997

(In percent of total credit)

	1992		1993		1994		1995		1996		1997	
	December	December	December	December	December	December	June	December	June	December	June	December
Agriculture	13.3	14.5	13.5	12.8	10.8	9.6	9.5	7.1	6.9	7.1	6.9	7.1
Manufacturing	19.6	24.7	24.5	25.1	25.8	26.0	25.1	17.4	18.0	17.4	18.0	17.4
Trade	13.9	16.4	6.8	4.3	4.4	3.9	3.6	14.5	14.4	14.5	14.4	14.5
Exports	4.4	5.4	0.8	0.5	0.4	0.4	0.5	0.4	0.3	0.4	0.3	0.4
Imports	6.7	8.4	2.6	1.2	1.0	1.0	1.0	0.7	0.7	0.7	0.7	0.7
Domestic	2.8	2.6	3.4	2.7	3.0	2.5	0.0	13.3	13.4	13.3	13.4	13.3
Building and construction	7.2	5.7	5.1	4.9	4.9	5.0	5.7	4.7	4.5	4.7	4.5	4.7
Transport and communications	3.9	4.3	5.0	5.1	5.3	4.6	4.7	4.5	4.1	4.5	4.1	4.5
Financial institutions	2.1	3.0	1.9	1.6	2.6	2.0	2.0	3.7	4.1	3.7	4.1	3.7
Real estate	7.3	2.7	2.1	2.4	2.3	2.7	3.4	3.0	2.8	3.0	2.8	3.0
Mining and quarrying	0.6	0.4	1.2	1.3	1.2	1.1	1.0	1.0	0.9	1.0	0.9	1.0
Private households	3.1	3.9	1.5	1.3	1.2	5.0	4.1	2.5	2.3	2.5	2.3	2.5
Other	29.1	24.3	39.4	49.4	41.6	40.1	40.9	21.2	17.7	21.2	17.7	21.2
Memorandum item:												
Credit to agriculture (in percent of total deposits) ¹	10.1	9.3	8.2	8.7	8.3	7.0	6.9	7.2	6.9	7.2	6.9	7.2

Source: Kenyan authorities.

¹Excludes government deposits.

Table 31. Kenya: Balance of Payments, 1992-97
(In millions of U.S. dollars, unless otherwise indicated)

	1992	1993	1994	1995	1996	1997 Estimate
Current account	-106	166	66	-397	-116	-243
Excluding official transfers (net)	-321	72	-14	-487	-221	-336
Exports, f.o.b.	1,013	1,103	1,484	1,875	1,969	2,100
Coffee	128	177	233	282	287	300
Tea	295	299	301	331	396	431
Oil products	69	62	64	95	97	164
Other	521	566	886	1,168	1,189	1,205
Imports, c.i.f.	-1,866	-1,606	-2,042	-3,067	-2,928	-3,294
Public	-91	-75	-78	-212	-142	-111
Private	-1,775	-1,531	-1,964	-2,855	-2,786	-3,183
Of which						
Non-oil	-1,363	-1,124	-1,631	-2,454	-2,338	-2,667
Services (net)	820	788	759	620	531	558
Factor income (net)	-355	-360	-362	-320	-226	-203
Current transfers (net)	282	241	228	495	538	596
Private (net)	68	147	147	405	433	503
Official (net)	214	94	80	90	105	93
Capital account	-131	116	36	258	555	242
Investment assets and liabilities (net)	-146	24	-268	-46	-11	-139
Public sector (excluding IMF)	-131	45	-207	-61	-92	-176
Inflows	276	425	252	378	359	264
Outflows	-407	-380	-460	-439	-452	-440
Deposit money banks (net)	0	0	-17	23	88	3
Private sector (net)	-16	-21	-43	-8	-7	34
Short-term (net) and net errors and omissions ¹	15	92	304	304	566	382
Overall balance	-237	282	103	-139	438	-1
Financing items	237	-282	-103	139	-438	1
Reserve assets (gross)	7	-300	-123	172	-389	49
Use of Fund credit (net)	-83	-30	19	-39	-25	-67
Accumulation of arrears	313	49	-499	6	-25	19
Rescheduling of arrears	0	0	501	0	0	0
Memorandum items:						
Gross official reserves (end of period) ²	182	475	625	458	855	788
In months of imports of goods	1.2	3.5	3.7	1.8	3.5	2.9
Current account balance (in percent of GDP)						
Including official transfers	-1.4	2.9	1.3	-4.1	-0.7	-2.3
Excluding official transfers	-4.0	1.2	0.1	-5.1	-1.9	-3.2
Debt service ratio (in percent of exports of goods and services)	33.0	27.6	26.2	24.8	24.8	22.1

Sources: Kenyan authorities; and Fund staff estimates.

¹Includes unrecorded foreign earnings and direct investment, as well as short-term inflows.

²At current exchange rates.

Table 32. Kenya: Tea Production and Exports, 1992-97
(In thousands of tons, unless otherwise indicated)

	1992	1993	1994	1995	1996	1997
Production						
Smallholder	188.1	211.2	209.4	244.5	257.2	220.7
Estates	99.8	112.5	119.1	139.0	144.1	129.7
	88.3	98.6	90.3	105.6	113.1	91.0
Area (in thousands of hectares)						
Smallholder	103.5	104.9	105.9	111.3	113.7	118.6
Estates	72.2	73.1	73.8	82.2	84.7	85.5
	31.3	31.8	32.1	29.1	29.0	33.1
Average yield (kilograms per hectare)						
Smallholder	1,730	1,942	1,776	1,996	1,775	1,774
Estates	2,816	3,339	3,113	3,404	4,093	2,866
Exports						
Volume	169.0	191.3	177.6	225.6	229.0	206.1
Price (U.S. dollars per kilogram)	1.74	1.54	1.66	1.31	1.29	1.43
Value (in millions of U.S. dollars)	294.7	294.7	294.7	294.7	294.7	294.7

Sources: Tea Board of Kenya; Central Bureau of Statistics; and Fund staff estimates.

Table 33. Kenya: Coffee Production, Consumption, and Exports, 1991-96
(In thousands of tons, unless otherwise indicated; for crop year beginning October 1)

	1991	1992	1993	1994	1995	1996
Opening stocks	33.1	37.0	28.3	17.3	34.6	17.8
Production	90.3	79.9	73.5	95.8	97.6	68.0
Consumption	3.0	3.0	3.0	3.0	3.0	3.0
Total exports						
Volume	83.9	84.7	87.3	79.5	113.5	83.2
Average price (U.S. dollars per pound)	82.6	92.8	114.4	169.8	118.6	175.8
Value (in millions of U.S. dollars)	152.8	173.4	220.2	297.5	296.8	322.6

Source: Kenyan authorities.

Table 34. Kenya: Commodity Composition of Trade, 1992-97

(In percent of total)

	1992	1993	1994	1995	1996	1997 Estimate
Exports						
Coffee	12.6	16.0	15.7	15.0	14.6	14.3
Tea	29.1	27.1	20.3	17.6	20.1	20.5
Horticulture	6.9	6.1	5.6	6.4	6.9	7.3
Petroleum products ¹	6.8	5.6	4.3	5.1	4.9	7.8
Other	44.5	45.1	54.1	55.9	53.4	50.1
Imports						
Consumer goods ²	10.6	10.8	12.9	13.3	16.3	...
Industrial supplies ³	43.1	42.9	47.0	43.7	42.5	...
Fuels and lubricants	20.2	24.8	16.1	11.7	16.2	...
Machinery, capital, and transport equipment	26.1	21.4	23.9	31.3	25.0	...

Source: Kenyan authorities.

¹Net of aircraft and ship stores.

²Includes food and beverages for household consumption.

³Includes food and beverages for industrial use.

Table 35. Kenya: Trade Volumes and Prices, 1992-97

	1992	1993	1994	1995	1996	1997 Estimate
(Indices, 1990=100)						
Volume indices						
All exports	101.2	113.0	134.6	160.4	171.3	158.6
Non-traditional exports	99.3	114.7	157.5	168.6	174.7	169.8
All imports	91.3	80.1	100.7	131.7	132.0	153.5
Excluding special imports	92.9	87.7	97.9	138.7	142.2	155.3
Price indices ¹						
All exports	100.4	97.9	110.6	117.3	115.3	132.8
Non-traditional exports	110.5	113.1	126.5	146.8	150.0	152.9
All imports	88.4	86.7	87.8	100.8	96.0	92.9
Terms of trade	113.5	112.9	126.0	116.3	120.1	143.0
(Annual percentage change)						
Volume indices						
All exports	-5.0	11.7	19.1	19.1	6.8	-7.4
Non-traditional exports	-2.7	15.4	37.3	7.1	3.6	-2.8
All imports	-0.7	-12.3	25.7	30.8	0.3	16.3
Excluding special imports	-3.2	-5.6	11.7	41.7	2.5	9.2
Price indices ¹						
All exports	1.0	-2.5	13.0	6.1	-1.7	15.2
Non-traditional exports	6.3	2.4	11.8	16.0	2.2	1.9
All imports	-3.9	-1.9	1.2	14.9	-4.8	-3.2
Terms of trade	5.1	-0.6	11.7	-7.7	3.2	19.1

Sources: Central Bureau of Statistics; and Fund staff estimates

¹In U.S. dollars

Table 36. Kenya: Value, Unit Value, and Volume of Major Exports, 1992-97
(Value in millions of U.S. dollars; price in units indicated; and volume in thousands of tons)

	1992	1993	1994	1995	1996	1997 Estimate
Coffee	128.0	176.5	233.3	282.0	286.7	300.1
Price (U.S. cents per pound)	73.8	90.0	131.8	141.6	111.9	195.8
Volume	78.7	89.0	80.3	90.3	116.2	69.5
Tea	294.7	298.6	301.1	330.6	396.3	430.5
Price (U.S. cents per kilogram)	174.4	156.1	169.5	146.6	173.1	208.9
Volume	169.0	191.3	177.6	225.6	229.0	206.1
Horticulture	70.3	67.8	83.7	119.2	136.7	152.5
Processed fruits and vegetables	46.0	44.7	44.0	94.4	87.1	64.5
Hides, skins, and leather	25.5	26.8	29.4	26.2	15.7	12.7
Price (U.S. dollars per kilogram)	91.1	99.6	108.1	216.3	153.6	118.3
Volume	12.7	12.2	12.4	5.5	4.6	4.9
Soda ash	16.8	19.6	17.3	20.5	20.2	22.3
Cement	15.2	20.8	29.1	33.2	44.4	43.3
Price (U.S. dollars per ton)	40.2	41.4	50.8	69.0	65.8	57.2
Volume	377.6	502.5	573.4	481.7	675.3	756.3
Pyrethrum	22.7	15.9	28.0	26.6	31.1	25.3
Oil products	68.7	62.3	63.6	94.7	96.9	163.7
Other exports	324.7	369.9	654.4	847.8	853.7	884.9
Total value	1,012.6	1,102.9	1,484.0	1,875.1	1,968.9	2,099.8

Sources: Kenyan authorities; and Fund staff estimates.

Table 37. Kenya: Destination of Exports, 1992-97¹

	1992	1993	1994	1995	1996	1997 Estimate
(In millions of U.S. dollars)						
Western Europe	437	459	527	621	619	672
United Kingdom	203	187	177	189	216	239
Germany	69	85	119	144	154	144
Netherlands	45	46	64	83	112	100
Other	119	141	167	204	137	189
Eastern Europe	1	2	3	2	5	7
United States	40	43	52	51	56	63
Canada	8	9	11	11	11	10
Africa	330	403	680	923	961	971
Uganda	77	104	194	297	334	317
Tanzania	52	85	162	246	266	271
Zambia	3	2	3	4	4	5
Other	197	212	321	377	357	378
Middle East	32	34	26	45	66	67
Far East and Australia	150	141	173	206	214	173
Japan	15	10	12	13	17	15
India	8	9	9	13	13	2
Other	127	121	151	180	184	156
Aircraft and ship stores	95	67	46	17	30	53
Other	11	7	9	13	7	89
Total ¹	1,103	1,166	1,527	1,890	1,969	2,105
(In percent of total)						
Western Europe	39.6	39.4	34.5	32.8	31.4	31.9
United Kingdom	18.4	16.0	11.6	10.0	11.0	11.4
Germany	6.3	7.3	7.8	7.6	7.8	6.8
Netherlands	4.1	4.0	4.2	4.4	5.7	4.8
Other	10.8	12.1	10.9	10.8	7.0	9.0
United States	3.6	3.7	3.4	2.7	2.8	3.0
Africa	29.9	34.6	44.5	48.8	48.8	46.1
Uganda	7.0	8.9	12.7	15.7	17.0	15.1
Tanzania	4.7	7.3	10.6	13.0	13.5	12.9
Other	18.2	18.4	21.2	20.1	18.3	18.2
Middle East	2.9	2.9	1.7	2.4	3.4	3.2
Far East and Australia	13.6	12.1	11.3	10.9	10.9	8.2
Japan	1.4	0.9	0.8	0.7	0.9	0.7
India	0.7	0.8	0.6	0.7	0.7	0.1
Other	11.5	10.4	9.9	9.5	9.3	7.4
Other	10.4	7.4	4.5	2.3	2.7	7.6

Source: Kenyan authorities.

¹Includes certain services and thereby differs from total exports in Table 31.

Table 38. Kenya: Commodity Composition of Imports, 1992-97

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997 Estimate
By economic category¹						
Consumer goods	197	174	264	408	476	...
Food and beverages	45	21	48	40	63	...
Other nondurable goods	67	90	101	128	140	...
Durable goods	85	63	114	239	273	...
<i>Of which</i>						
Passenger cars	61	39	79	156	212	...
Intermediate goods	1,183	1,088	1,291	1,699	1,719	...
Primary industrial goods	141	84	185	98	189	...
Processed industrial goods	664	606	776	1,243	1,055	...
Fuels and lubricants	378	398	330	358	475	...
Capital goods	483	343	485	956	727	...
Transport equipment	101	108	172	365	213	...
Other machinery and equipment	382	235	314	591	514	...
Other goods	4	2	2	5	6	...
Total	1,866	1,606	2,042	3,067	2,928	3,294
By Standard International Trade Classification (SITC) category²						
Food and beverages (0 and 1)	186	105	304	135	209	410
Mineral fuels (3)	325	405	335	410	448	515
Raw materials (2 and 4)	159	108	144	224	199	212
Chemicals (5)	317	316	319	540	488	479
Machinery and transport equipment (7)	559	371	566	1,086	869	952
Other manufactured goods (6, 8, and 9)	320	302	374	671	715	726
Total	1,866	1,606	2,042	3,065	2,928	3,294

Source: Kenyan authorities.

¹Customs data.

²SITC categories are shown in parentheses. Indirect imports are not included.

Table 39. Kenya: Imports by Country of Origin, 1992-97

	1992	1993	1994	1995	1996	1997 Estimate
(In millions of U.S. dollars)						
Western Europe	715	610	674	1,325	1,194	1,048
United Kingdom	222	191	270	386	390	352
Germany	127	114	127	209	179	226
Other	366	305	278	730	625	470
Eastern Europe	11	13	22	28	37	37
United States	153	93	135	129	154	261
Canada	13	13	10	12	31	28
Africa	59	39	266	276	287	136
Uganda	5	5	4	3	1	8
Tanzania	9	8	18	12	18	16
Zambia	10	6	4	3	5	2
Other	35	20	239	258	263	111
Middle East	407	369	315	399	209	522
Far East and Australia	427	305	494	831	757	750
Japan	175	122	176	337	219	245
India	54	43	78	166	168	146
Australia	7	4	4	9	29	35
Other	191	132	237	319	341	324
Other ¹	80	164	126	67	259	511
Total	1,866	1,606	2,042	3,067	2,928	3,294
(In percent of total)						
Western Europe	38.3	38.0	33.0	43.2	40.8	31.8
United Kingdom	11.9	11.9	13.2	12.6	13.3	10.7
Germany	6.8	7.1	6.2	6.8	6.1	6.9
Other	19.6	19.0	13.6	23.8	21.3	14.3
United States	8.2	5.8	6.6	4.2	5.3	7.9
Africa	3.2	2.4	13.0	9.0	9.8	4.1
Uganda	0.3	0.3	0.2	0.1	0.0	0.2
Tanzania	0.5	0.5	0.9	0.4	0.6	0.5
Zambia	0.5	0.3	0.2	0.1	0.2	0.1
Other	1.9	1.3	11.7	8.4	9.0	3.4
Middle East	21.8	23.0	15.4	13.0	7.1	15.8
Far East and Australia	22.9	19.0	24.2	27.1	25.9	22.8
Japan	9.4	7.6	8.6	11.0	7.5	7.4
India	2.9	2.7	3.8	5.4	5.7	4.4
Australia	0.4	0.3	0.2	0.3	1.0	1.1
Other	10.2	8.2	11.6	10.4	11.6	9.8
Other ¹	5.6	11.8	7.8	3.5	11.2	17.5

Source: Kenyan authorities.

¹Includes unidentified.

Table 40. Kenya: Changes in Import Tariff Structure, 1987/88-1996/97¹

Tariff band	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
0	185	193	332	348	213	168	176	185	193	192
2	0	0	0	0	136	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0	0
10	8	26	94	89	89	263	297	38	106	770
15	17	45	0	314	316	321	332	247	627	0
20	169	170	414	432	434	430	555	555	2,859	2,866
25	201	171	383	1,311	1,356	1,355	456	2,141	0	0
30	437	435	1,347	77	1,356	1,355	1,931	0	683	622
35	411	375	0	590	621	617	538	1,214	0	0
40	109	122	668	53	376	374	0	0	0	0
45	673	525	0	352	163	167	39	0	0	1,379
50	22	188	674	241	1	0	0	0	0	0
55	97	0	0	107	473	648	0	0	0	0
60	7	155	340	249	174	0	1,988	0	0	0
65	49	0	0	0	0	0	0	0	0	0
70	53	114	0	0	0	0	0	0	0	0
75	8	0	0	117	1,376	1,368	0	0	0	0
80	100	92	1,046	900	0	0	0	0	0	0
90	2	0	0	0	0	0	0	0	0	0
95	7	0	0	0	0	0	0	0	0	0
100	112	130	352	467	0	0	0	0	0	0
110	3	10	0	0	0	0	0	0	0	0
120	3	0	0	0	0	0	0	0	0	0
125	2	0	0	0	0	0	0	0	0	0
135	3	23	30	0	0	0	0	0	0	0
170	1	0	0	0	0	0	0	0	0	0
Total number of items	2,679	2,774	5,680	5,647	5,728	5,711	5,757	5,742	5,847	5,847
Total number of effective bands	24	16	11	15	13	10	8	7	6	5
Average ad valorem tariff rate (in percent)										
Including duty free	39.86	41.29	46.29	43.97	37.88	35.49	31.69	26.35	20.76	18.37
Excluding duty free	42.82	44.38	49.17	46.86	39.34	36.57	32.69	27.23	21.47	19.00
Weighted-average ad valorem tariff rate (in percent)										
Including duty free	...	...	...	25.60	23.52	23.20	24.52	19.88	16.13	14.13
Excluding duty free	...	...	...	31.78	27.17	27.25	29.63	22.89	18.43	16.09

Sources: Kenyan authorities; and Fund staff estimates.

¹ July-June fiscal year.

Table 41. Kenya: External Services, Income, and Transfer Accounts, 1992-97

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997 Estimate
Services	820	788	759	620	531	558
Shipment account	55	60	54	115	92	129
Credit	55	60	54	115	92	129
Debit	0	0	0	0	0	0
Other transportation	190	159	140	140	165	170
Credit	295	276	239	247	270	278
Debit	-104	-117	-100	-107	-105	-108
Foreign travel	414	373	387	341	285	175
Credit	442	421	501	486	453	388
Debit	-29	-48	-114	-145	-168	-213
Government	216	232	217	45	28	85
Credit	294	302	303	162	138	178
Debit	-77	-70	-86	-116	-110	-93
Other services (private)	-55	-37	-39	-22	-39	-2
Credit	61	75	66	82	52	81
Debit	-116	-112	-105	-104	-91	-82
Investment income	-355	-360	-362	-320	-226	-203
Credit	7	11	20	26	22	39
Debit	-362	-371	-382	-346	-247	-242
Transfers	282	241	228	495	538	596
Private	68	147	147	405	433	503
Credit	257	208	208	448	437	539
Debit	-189	-61	-61	-43	-4	-36
Public	214	94	80	90	105	93
Credit	220	100	87	95	106	95
Debit	-6	-6	-6	-5	-2	-2

Source: Kenyan authorities.

Table 42. Kenya: Public and Publicly Guaranteed External Debt Outstanding, 1992-97

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

	1992	1993	1994	1995	1996	1997 Estimate
Bilateral	1,666	1,818	2,435	2,440	2,317	2,239
Austria	34	32	67	67	58	42
Canada	88	91	90	90	68	53
Denmark	68	63	67	67	65	49
France	82	76	302	302	348	274
Germany	50	51	93	93	133	117
Italy	105	97	105	105	140	123
Japan	684	786	990	992	1,114	1,225
Netherlands	116	107	128	129	121	89
Saudi Arabia	58	59	36	36	31	27
United Kingdom	25	21	98	98	76	88
United States	82	109	106	107	77	91
Other	276	327	353	354	86	61
Multilateral	2,916	3,007	3,177	3,362	3,348	3,172
African Development Bank/Fund	231	229	254	305	333	322
European Union/European Investment Bank	184	178	195	201	194	163
IBRD	656	566	501	465	364	352
IDA	1,411	1,631	1,789	1,977	2,043	2,045
IMF	393	364	405	382	381	255
Other	41	39	33	34	33	35
Other creditors	1,176	1,087	746	712	528	347
Total outstanding debt	5,758	5,912	6,358	6,515	6,193	5,758
Debt-service payments	713	617	693	735	737	697
Principal	490	442	474	479	513	507
Non-IMF	407	380	460	439	452	440
IMF	83	62	14	39	61	67
Interest	223	175	220	257	225	190
Non-IMF	208	168	218	253	221	186
IMF	15	8	2	4	4	4
Memorandum items:						
Debt service (in percent of exports of goods and services)	33.1	27.6	26.2	24.8	24.8	22.1
Stock of debt (in percent of GDP)	70.1	102.8	88.9	73.5	68.5	55.8
Stock of arrears	536	585	86	92	86	105

Sources: Kenyan authorities; World Bank *World Debt Tables*; and Fund staff estimates.

Note: Discrepancy between changes in stocks and the flows in the balance of payments may arise because of exchange rate movements, reclassification of debts, and debt cancellations. The data do not include arrears.

Kenya: Summary of Tax System as of End-April 1998

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Income taxes			
1.1 Taxes on companies, corporations, and enterprises			
Income Tax Act, 1973 (No. 16 of 1973); 1974 Finance Act.	Tax is charged on income accruing in Kenya.	<p>Income of specified agricultural produce boards, registered pension schemes, and provident funds are exempt. Income deriving from interest on government tax reserve certificates and on specified loans to government and other public authorities, etc., is exempt, as are dividends from companies of which the recipient company controls more than 12.5 percent of the voting stock. Export processing zone enterprises are exempt for ten years commencing from date of first production, sale, or receipt.</p> <p>Dividend distributions are subject to compensatory tax at a rate of $t/(1-t)$ if the distributions exceed the value of the dividend tax account, where t is the current corporate tax rate of the company.</p> <p>Dividends received on trading account by a financial institution are exempt from taxation, but the expenses attributable to earning exempt dividend income are nondeductible. Gains of insurance companies from stock market trading are exempt. Gains of licensed dealers from stock market trading are subject to maintaining minimum turnover rates.</p> <p>Annual depreciation allowances as a percent of written-down value (declining balance) are as follows: machinery, 12.5 percent; mining operations, 10 percent of the capital investment; motor vehicles and aircraft, 25 percent; computers and peripheral hardware, calculators, copiers and duplicating machines, 30 percent; heavy earthmoving equipment and agricultural machinery, 37.5 percent.</p>	<p>For resident companies, the rate is 32.5 percent; for nonresident companies (branches), 40 percent. The rate for export processing zone enterprises is 25 percent after the first ten years.</p>
		Withholding and similar taxes	
		<p>Following are rates on payments to residents (offsettable against tax liability unless otherwise specified):</p>	<ul style="list-style-type: none"> • On interest including discounts, rates are 10 percent on housing bond interest, 20 percent on bearer bond interest, and 15 percent on all other interest. This is a final tax where interest is paid by a financial institution, including the central bank, to an individual; otherwise, interest is subject to income tax.
		<p>Dividends received on trading account by a financial institution are exempt from taxation, but the expenses attributable to earning exempt dividend income are nondeductible. Gains of insurance companies from stock market trading are exempt. Gains of licensed dealers from stock market trading are subject to maintaining minimum turnover rates.</p>	<ul style="list-style-type: none"> • On dividends, rate is 5 percent on dividends from resident corporations (excluding savings cooperatives) as a final tax; otherwise it is 15 percent. • On insurance brokerage fees and commissions, rate is 5 percent. For insurance agents' fees, rate is 10 percent.
		<p>Annual depreciation allowances as a percent of written-down value (declining balance) are as follows: machinery, 12.5 percent; mining operations, 10 percent of the capital investment; motor vehicles and aircraft, 25 percent; computers and peripheral hardware, calculators, copiers and duplicating machines, 30 percent; heavy earthmoving equipment and agricultural machinery, 37.5 percent.</p>	<ul style="list-style-type: none"> • On contract, consultancy, or agency fees of an individual in excess of K Sh 24,000, rate is 10 percent but only if he or she is not working under a registered business name or PIN and the amount is not recorded and reported. • On royalties, rates is 5 percent.

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
Corporate income tax (concluded)	<p>Annual depreciation allowances based on original expenditure (straight-line method) are as follows: buildings, 2.5 percent (hotels, 4 percent); agricultural land improvements, 33$\frac{1}{4}$ percent.</p>	<ul style="list-style-type: none"> • Taxable amount of pension payments or withdrawals from registered funds, if not taxed under PAYE system, at the following rates: 	<p style="text-align: center;"><u>Taxable amount</u> <u>Rate of tax (percent)</u></p>
	<p>An initial "investment deduction" of 85 percent is granted for new investment in buildings (including hotels) and equipment outside the municipalities of Nairobi and Mombasa, and 35 percent within these municipalities. Regular depreciation is disallowed on that share of the expenditure qualifying for investment deduction. Effective 1995, investment deduction is</p>	<p>First K Sh 400,000 10.0 Next K Sh 400,000 15.0 Next K Sh 400,000 20.0 Next K Sh 400,000 25.0 Next K Sh 400,000 30.0 Above K Sh 2,000,000 32.5</p>	
	<p>60 percent in all regions and qualifying investments expanded to include infrastructure and environmental expenditures. If manufacturing under bond for export, investment deduction is increased to 100 percent. An optional 100 percent for export processing zone enterprises is claimable within the first 20 years from date of establishment.</p>	<p>Payments to nonresidents are taxed at following rates:</p>	<ul style="list-style-type: none"> • Interest, including discounts, 15 percent, except for oil exploration, 10 percent, and bearer bonds, 20 percent; • Dividends, 10 percent; • Rent of immovable property, 30 percent, and rent of other tangible property, 15 percent; • Management and professional fees, 20 percent, except for oil exploration, 12.5 percent; • Royalty, 20 percent; • Pension, 5 percent; • Entertainment and sporting events, 20 percent; and • Oil exploration fees, 12.5 percent.
	<p>In ascertaining total income, all expenditure incurred wholly and exclusively in the production of income is deductible, including, inter alia, production business expenditures, capital expenditure on farmland for the purpose of preventing soil erosion or for clearing and planting permanent or semipermanent crops, and interest on money employed in the production of income.</p>		

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
Presumptive tax on agricultural sector (PIT, effective July 1, 1989)	PIT is payable on the gross sales price of selected agricultural produce sales. Qualifying produce include maize, wheat, barley, rice, sugarcane, pyrethrum flower, tobacco leaf, tea leaf, coffee, cashews, pigs, cotton, and hides and skins. For individual producers, PIT is a final tax, but for companies it is a withholding tax.	Two percent. Terminated effective January 1, 1994 but reintroduced from July 1, 1996.	
1.2 Taxes on individuals			
Income Tax Act, 1973 (No. 16 of 1973); 1974 Finance Act.	Tax is charged on income derived from, and accruing in, Kenya. A pay-as-you-earn (PAYE) system is in operation for employees.	The President of Kenya is exempt from taxes on his salary, etc., as are allowances of members of parliament. Interest on post office savings bank deposits and on tax reserve certificates and specified government securities held by nonresidents are also exempt. Fringe benefits up to K Sh 2,400 a year are exempt, as are pension and retirement annuity payments payable to residents up to K Sh 150,000 per annum. As of January 1, 1993, one-time lump-sum payments of up to K Sh 1.4 million to the estate of a deceased pensioner are exempt.	<p><u>Taxable income</u></p> <p>First K Sh 90,240 10.0 Next K Sh 90,240 15.0 Next K Sh 90,240 20.0 Next K Sh 90,240 25.0 Next K Sh 90,240 30.0 Above K Sh 451,200 32.5</p> <p>The top individual income tax rate was lowered from 45 percent to 40 percent effective January 1, 1993, to 35 percent effective January 1, 1995, and to 32.5 percent effective January 1, 1998. An additional 2.5 percent drought levy was charged on top-bracket income in 1995. The 30 percent bracket was added in 1996.</p>
	The nonemployment income of a married woman living with her husband is deemed to be her husband's income for tax purposes. A wife's employment, self-employment, and professional income are taxed separately from her husband's income.		
			Withholding and similar taxes at same rates as in Section 1.1.

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
Individual income tax (concluded)		Interest not exceeding K Sh 56,000 on amounts borrowed for the purchase or improvement of owner-occupied housing may be deducted. Pension contributions to a registered pension, provident, or individual retirement fund up to the amount of 30 percent of pensionable income or K Sh 120,000 per annum per employee are also deductible. In ascertaining total income, all expenditure incurred wholly and exclusively in the production of income is deductible, including, inter alia, capital expenditure to prevent soil erosion and interest on money employed in the production on income. Contributions to a registered home ownership savings plan are deductible up to K Sh 30,000 per year for ten years by nonhomeowners. Withdrawals are exempt if used to buy or construct a permanent residence. Deduction of interest expenses incurred in earning investment income is limited to the amount of investment income.	Penalty for late payment or underpayment of tax, 15 percent of tax due; for unpaid taxes, 3 percent interest for each month overdue on compounding basis; for nonsubmission of returns, 3 percent of amount due.
Presumptive tax on agriculture (effective July 1, 1989)	See under Section 1.1.		
2. Social security contributions National Social Security Fund Act, 1965 (No. 28 of 1965).		Persons in the public service covered by the Pensions Act are exempt, as are members of the armed forces, police force, prison services, and National Youth Service. However, temporary employees who do not enjoy government pension benefits are covered by the social security scheme.	The employer and employee contribute 5 percent each of salary up to a maximum contribution of K Sh 80 per month each. This is equivalent to applying a monthly wage ceiling of K Sh 1,600.
3. Other payroll taxes	None.		
4. Taxes on property			
4.1 Real estate taxes	There are no central government taxes on land or urban property.		
4.2 Death and gift taxes	The estate duty has been eliminated.		

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.3 Property transfer taxes	See stamp duties under Section 7.2		
5. Taxes on goods and services			
5.1 Value-added tax (VAT) VAT Act, 1989.	VAT is based on the destination principle and levied on locally produced or imported goods and services. It is levied at the manufacturing level for all goods and at the retail point on designated goods, which include all goods except unprocessed agricultural products and processed foodstuffs (excluding beverages).	Unprocessed agricultural products are exempt. Rental services are exempt if the equipment or vehicles are zero rated or exempt. Pharmaceuticals, medical equipment, fertilizers, agricultural machinery and equipment, educational textbooks, and all exports of goods and taxable services are zero-rated. Tax can also be waived by the Minister for Finance under specific program conditions detailed in the act.	A standard rate of 17 percent is levied on the sale price or, in the case of imports, on the customs duty value plus the amount of customs duty. A low rate of 12 percent applies to electricity, vegetable oils, and restaurant services, and to most capital equipment.
VAT (concluded)	VAT is levied on following services: business and professional services; hotels and restaurants; agency and security services; materials-testing services; goods transportation, handling and storage, and courier services; advertising; rental/repair/maintenance of all machinery and equipment, including vehicles; entertainment services; cleaning and photographic services; and beauty parlors and hairdressers.	Exports of goods and services are zero rated. The minimum turnover level for registration is K Sh 2.4 million per year for the combined turnover of taxable goods and services.	

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.2 Excise duties			
5.21 Tobacco. Excise Tariffs Act (Chapter 474 of the Laws of Kenya); East African (EA) Customs and Excise Management Act (Chapter 20 of the Laws of the EA Community); 1974 Finance Act.	Tax is levied on the ex factory price of cigarettes, cigars, pipe tobacco, and snuff, or the import value (including customs duty).	Not applicable.	Cigarettes, pipe and other tobacco 135 percent Cigars 30 percent
5.22 Liquor			
5.221 Excise duty on beer. Excise Tariffs Act (Chapter 474 of the Laws of Kenya); East African Customs and Excise Tariffs, East African Excise Management Act (Chapter 28 of the Laws of the EA Community).	Duty is levied on ex factory price of locally brewed beer, or import value (including customs duty).	Not applicable.	Light beer 95 percent Heavy beer (stout and porter) 60 percent Nonmalt beer and other fermented beverages 60 percent Local beer (chibuku) 15 percent
5.222 Excise duty on spirits, wines and mineral waters. Excise Tariffs Act (Chapter 474 of the Laws of Kenya); East African Customs and Excise Tariffs, East African Excise Management Act (Chapter 28 of the Laws of the EA Community).	Levied on ex factory price of locally produced products, or on import value (including customs duty).	Not applicable.	Mineral water and soda water 10 percent Other nonalcoholic drinks 20 percent Cider 35 percent Wine 45 percent Spirits 65 percent
5.23 Refinery throughput tax. Refinery Throughput Tax Act, 1982.	Tax is levied on all charges made by a refinery with respect of refining crude petroleum.	Charges pertaining to any class or consignment of petroleum or petroleum products or to any part of the refining process may be waived by the Minister for Finance.	Fifteen percent of refining charges. Refinery throughput tax was reduced to zero effective November 1, 1994.

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.24 Other excises			
5.241 Second-hand motor vehicle purchase tax	Tax is levied on purchase of second-hand motor vehicles.	Ambulances, etc., are exempt.	K Sh 350 for vehicles with fewer than four wheels and K Sh 900 to K Sh 4,600 for all other vehicles, depending upon the engine capacity (1996 Finance Act).
5.242 Matches	Tax is levied on production of matches and imports.	Not available.	K Sh 12.50 per 100 containers of less than 25 matches per container and K Sh 25.00 per 100 containers of between 25 and 50 matches per container, otherwise, K Sh 25.00 per 5,000 matches. Exempted effective June 19, 1997.
Vehicles	Ex factory price or import value (including customs duty) is taxed.		Passenger car, 1,800 cc to 2,000 cc 10 percent Passenger car, 2,000 cc to 3,000 cc 20 percent Passenger car, over 3,000 cc 40 percent
Soft Drinks	Ex factory price or import value (including customs duty) is taxed.		Twenty percent.
Cosmetics	Ex factory price or import value (including customs duty) is taxed.		Ten percent.
5.243 Oil	Specific duty is applied.		Rates per 1,000 liters Premium petrol K Sh 16,445 Regular petrol K Sh 16,055 Other white spirits K Sh 5,800 Other petroleum oil K Sh 2,600 Automotive diesel K Sh 8,801
5.3 Selective excises on services			
5.31 Air passenger service charge. Air Passenger Tax (Amendment) Act, 1973 (No. 8 of 1973).	Charge is collected by airlines from all passengers embarking at an airport on an international or domestic ticket.		US\$20 per passenger on international ticket. K Sh 100 per passenger on domestic ticket.

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.32 Betting and gambling tax. Betting, Lotteries, and Gaming Act, 1966 (Chapter 131 of the Laws of Kenya).	Tax is levied on all bets made (1) with a bookmaker other than at an authorized race meeting, (2) with totalizators, (3) on pool betting, and (4) on gaming in public premises.	Not available.	Bets made with bookmaker 12.5 percent of each stake, 3.5 percent of total turnover of bookmaker. Totalization 5 percent of the authorized commission, additional 5 percent of all money staked if totalizator not operated at race course. Pool betting 2 1/2 percent of gross stakes (1987 Finance Act). Gaming 13.5 percent of gross casino turnover.
5.33 Entertainment tax Entertainment Tax Act, 1950 (Chapter 479 of the Laws of Kenya).	Tax is levied on entrance charges where VAT on entertainment services does not apply.	Exemptions include stage plays and charitable and sporting events.	Eighteen percent (1991 Finance Act, Section 79(b)).
5.34 Insurance premium tax Insurance Act.	(1) Tax is levied on direct premium. (2) Tax is levied on reinsurance premium paid to reinsurance business outside Kenya on Kenyan risk.	(1) Premium paid to registered pension funds is exempt. (2) Premiums paid on marine, aviation, and industrial fires are exempt.	(1) Rate of 1.5 percent of first premium. (2) Rate of 4 percent of reinsurance premium.
5.4 Business and professional licenses	All firms are required to have a license for all categories of business in which they are engaged. Fees vary according to the type of business and are graduated according to whether a business is located in a general business area or elsewhere in the city or a rural area.	Not available.	License fees under Trade Licensing Act range from K Sh 220 to K Sh 12,000 per annum (1974 Finance Act). Trading license fees were discontinued effective January 1997.

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.42 Professional license fees	All professionals are required to have a license to practice.		K Sh 5,000 per annum.
5.43 Liquor license fees	Firms engaged in the sale of beer, wine, and spirits are required to obtain an annual liquor license. Licenses are in three broad categories: general licenses, off-licenses, and on-licenses, and fees vary with the location of the business and the specific form of license.	Not available.	License fees range from K Sh 120 to K Sh 12,000 per annum (Legal Notice No. 205 of June 15, 1989).
5.44 Banking and financial	License fees are levied under the Banking Act on all banks, financial institutions, and insurance companies. Fees vary with location.	Not available.	<p>Banks</p> <p>Annual fee of K Sh 400,000 plus K Sh 50,000 for each branch in a municipality; K Sh 100,000 for each branch in a town council; and K Sh 30,000 for each branch in an urban council.</p> <p>Other financial institutions</p> <p>Annual fee of K Sh 253,000 plus K Sh 126,500 for each branch (Legal Notice No. 240 of 1991).</p> <p>Insurance companies</p> <p>Annual fee of K Sh 150,000 for insurance company and K Sh 250,000 for reinsurance company.</p> <p>Building societies</p> <p>Annual fee of K Sh 100,000 plus K Sh 40,000 for Nairobi, Mombasa, and Kisumu municipalities.</p> <p>Other places are free. Application fee, K Sh 5,000.</p>

Kenya: Summary of Tax System as of End-April 1998 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.5 Motor vehicle taxes	Annual fees vary with the weight and type of vehicle. The rates for diesel-driven vehicles are twice those for gasoline-driven vehicles.		<p>Motor cars</p> <p>Annual fee varies from K Sh 975 for vehicles with engines not exceeding 1,000 cc to K Sh 16,250 for vehicles with engines not exceeding 5,500 cc. A fee of K Sh 815 is charged for each additional 1,000 cc (Legal Notice 242 and 241 of June 16, 1988; LN 125, 126, and 127 of 1996; LN 163, 164 of 1997).</p> <p>Other vehicles</p> <p>Annual fee based on weight varies from K Sh 975 for vehicles not exceeding 1,000 kg. to K Sh 7,315 for those not exceeding 6,000 kg. A fee of K Sh 410 is charged for each additional 500 kg.</p>
5.5.1 Advance tax	Tax is payable annually upon registration of commercial vehicles (goods carrying) and public service vehicles (passenger carrying).	Tax can be offset against income tax liable.	<p>Commercial vehicles</p> <p>Higher of K Sh 1,000 or K Sh 500 per ton of load capacity.</p> <p>Public service vehicles</p> <p>Higher of K Sh 1,000 or K Sh 20 per passenger capacity per month.</p>
6. Taxes on international trade and transactions	There are both specific and ad valorem duties; the latter are determined on the basis of a price that includes, inter alia, the cost of freight and insurance to the port or place of importation. Fifty percent of the cost of air freight is excluded from the tax base.	Exemptions include goods purchased for use by the President and by charitable bodies and approved educational institutions; by the military and police; in aid-funded projects; and by diplomatic and international organizations.	<p>Ad valorem duty rates of 5, 15, and 25 percent are charged. Primary raw materials and capital equipment are mainly charged 5 percent. In addition, suspended duties have been imposed at the rate of 5-10 percent on a range of items, including motor vehicles, tires, dry cells, paper and paperboard, tobacco products and alcoholic beverages, certain fruits, vegetable oils, cosmetics, resins, yarns, footwear, and selected iron and steel products. Suspended duties of up to 70 percent can be charged on maize, rice, wheat, sugar, and milk.</p>
6.1 Taxes on imports New Customs Tariffs Act (1978)		Waiver can be granted only by the Minister for Finance on cases specified in law.	

Kenya: Summary of Tax System as of End-April 1998 (concluded)

Tax	Nature of Tax	Exemptions and Deductions	Rates
Taxes on imports (concluded)		<p>Duty-free items are live animals (except live swine, live poultry, nonbreeding horses, asses, mules, and hinnies), medicine; fertilizers, fungicides, and herbicides; maps and hydrographic or similar charts, including atlases, printed books, brochures, dictionaries, and encyclopedias; some agricultural and horticultural machinery and appliances; medical, surgical, dental, and veterinarian appliances; hearses; fire-fighting and street-cleaning vehicles; airplanes and helicopters; mobile radiological units and mobile clinics, invalid carriages and their parts; and contact lenses.</p>	<p>Alternative specific rates are charged on a number of categories of goods (clothing and textiles, footwear, and spirits). Specific duty rates are also charged on petroleum oil products. A combination of specific and ad valorem rates is applied to wheat, maize, sugar, rice, and milk. Lower rates apply to many products originating in the Common Market of Eastern and Southern Africa (COMESA).</p>
6.2 Export duty (effective July 1989)	All export duties were rescinded effective June 10, 1994.		
6.3 Export compensation scheme	Discontinued effective August 31, 1993.		
7. Other taxes			
7.1 Poll taxes	None.		

Kenya: Exchange Arrangement and Exchange Restrictions

(Position as of April 30, 1998)

Exchange arrangement

The currency of Kenya is the Kenya shilling, the external value of which is determined on the basis of supply and demand in the interbank market. The official exchange rate is set at the previous day's average market rate. The principal intervention currency is the U.S. dollar. The official exchange rate applies only to government and government-guaranteed external debt-service payments and to government imports for which there is specific budget allocation. On April 30, 1998, the exchange rate was K Sh 59.7 per U.S. dollar.

Banks are permitted to sell foreign exchange they purchase in the interbank market to any client at market-determined exchange rates, to purchase foreign exchange in the interbank market for their own accounts, to offer forward exchange contracts to exporters and importers at market-determined rates without restriction on the amount or period covered, or to sell foreign exchange they purchase in the interbank market to another bank. Foreign exchange bureaus are authorized to deal in cash and foreign traveler's checks.

Commercial banks are authorized to enter into forward exchange contracts with their customers at market-determined exchange rates in currencies of their choice; there are no limits on the amount or period of cover. There are no official schemes for currency swaps or exchange rate guarantee schemes for external debt servicing, except for the Exchange Risk Assumption Fund (ERAF), which covers the foreign exchange losses associated with exchange rate fluctuations occurring after July 1, 1989 for three development finance institutions. The ERAF ceased to take on new commitments effective June 1994.

Kenya accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement on June 30, 1994.

Administration of control

On December 27, 1995, the Exchange Control Act was repealed. The Central Bank Act was amended on the same date, granting the Central Bank of Kenya (CBK) powers to license and regulate foreign exchange transactions.

There are no import controls. Import and foreign exchange allocation licenses were abolished in May 1993, except for a short negative list of goods prohibited for health, security, or environmental reasons. The responsibility for issuing import licenses, when required, rests with the Director of Internal Trade in the Ministry of Commerce and Industry. The Director also issues special licenses for the exportation of restricted goods, including

certain agricultural products, as well as goods whose exportation is restricted based on security and environmental reasons.

Arrears are maintained with respect to external payments.

There are no payment restrictions imposed for security reasons.

Prescription of currency

There is no prescription of currency requirements.

Resident and nonresident accounts

Kenya residents and nonresidents are allowed to open foreign currency accounts with local banks or abroad. Kenya residents are allowed to open foreign currency accounts with banks abroad.

Imports and import payments

Import and foreign exchange allocation licenses are not required except for a few items that—for health, security, and environmental reasons—are included on a negative list.

Customs tariffs are applied as the sole form of protection of domestic industry. As of July 1, 1997, there were four customs tariff nomenclatures—zero-rated and 5, 15, and 25 percent.

Authorized banks are permitted to provide foreign exchange against the following documents: a copy of the import declaration, a final invoice, an original clean report of findings from a nominated inspection agency, and a copy of the customs entry.

Advance payments for imports may be made through commercial banks without prior approval from the CBK. All imports with f.o.b. values of more than US\$1,000 are subject to preshipment inspection for quality, quantity, and price, and require a clean report of findings.

Payments for invisible transactions

All payments and transfers for invisible transactions may be made without restrictions, provided that the application is supported by adequate documentation. Commercial banks may, without reference to the CBK, remit pension contributions to nonresidents. Foreign workers may transfer abroad any amount of their earnings upon verification of income and payment of taxes. Payment of interim dividends to nonresident shareholders may be remitted without limit, provided that the application is supported by adequate documentation.

Exports and export proceeds

Most goods may be exported without special licenses. Exports of certain foodstuffs and agricultural products require special licenses and may be restricted so as to ensure adequate supplies in the domestic market. Exports of tea, coffee, minerals, precious stones, and other essential strategic materials are also subject to special licensing. Coffee, tea, and horticultural produce may be exported only if a sales contract is registered with the Coffee Board, Tea Board, and Horticultural Crops Development Authority, respectively.

Proceeds from invisible transactions

All receipts from invisible transactions may be kept in foreign currency accounts or sold to authorized dealers. Travelers may freely bring in and take out foreign currency notes, except those of countries with restrictions on the exportation of currencies.

Capital

Capital account transactions are unrestricted with the following exceptions. The purchase of capital market securities by nonresidents is limited to 40 percent of the primary or secondary issue in aggregate and to 5 percent for an individual investor. The issuance of securities by nonresidents requires prior approval from the Capital Markets Authority (CMA), as does the sale or issuance of securities abroad by residents. The above-mentioned restrictions on capital market securities also apply to collective investment securities. The issuance of money market instruments by nonresidents requires prior approval from the central bank, as does the sale or issuance of money market instruments abroad by residents. Central bank approval is required for sale or issuance by nonresidents of derivatives and other negotiable instruments and nonsecuritized claims and for the sale or issuance of such instruments abroad by residents. The purchase of real estate by nonresidents requires government approval.

Gold

Residents may hold and acquire gold bullion (ingots, bars, or sheets) without restriction.

