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Kenya: Staff Report for the 2009 Article IV Consultation

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on October 30, 2009, with the officials of Kenya on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 7, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

KENYA

Staff Report for the 2009 Article IV Consultation

Prepared by the African Department
(In consultation with other departments)

Approved by Saul Lizondo and Dominique Desruelle

December 7, 2009

Mission Date and Team: October 15–30, 2009. Messrs. Atingi Ego (head) and Mlachila, and Ms. Masha (all AFR), and Ms. Nkusu (SPR). Mr. Rogers (Senior Resident Representative) assisted the mission, while Ms Zephirin (MCM) joined in the last week of the mission to discuss the findings of the September 2009 FSAP Update mission. The mission met with Prime Minister Raila Odinga, Deputy Prime Minister and Finance Minister Uhuru Kenyatta, Central Bank Governor Njuguna Ndung'u, other senior government officials as well as representatives of the business community, labor unions, religious leaders, civil society, and Kenya's development partners.

Background Papers: *"Spillover Effects and the EAC: Explaining the Slowdown and Recovery"; "The Global Financial Crisis and Adjustment to Shocks in Kenya, Tanzania and Uganda—A Balance Sheet Analysis Perspective"; and "Foreign Exchange Reserve Adequacy in the East African Community Countries";* which were discussed at a seminar with government officials.

Exchange Rate Regime: Kenya has accepted the obligations of Article VIII, Section 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

Economic Statistics: Broadly adequate for surveillance purposes, but weaknesses remain, especially regarding balance of payments data (Appendix III).

Fund Relations: The 2008 Article IV consultation was concluded in September 2008, when the Executive Board also discussed the ex post assessment of Kenya's long-term program engagement with the Fund. In May 2009, the Executive Board approved a disbursement under the RAC-ESF of SDR 135.7 million (50 percent of quota) to support the balance of payments and help the economy adjust to exogenous shocks. More recently, Kenya also benefited from the allocation of SDRs including both the general and special allocations, by about US$350 million.

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ACRONYMS

CBK	Central Bank of Kenya
CBR	Central Bank Rate
CGER	Consultative Group on Exchange Rate Issues
CPI	Consumer Price Index
CRR	Cash Reserve Requirement
EAC	East African Community
EFT	Electronic Fund Transfer
EPA	Economic Partnership Agreements
EREER	Equilibrium Real Effective Exchange Rate
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GAP	Governance Action Plan
GDP	Gross Domestic Product
HRA	Horizontal Repurchase Agreement
IFMIS	Integrated Financial Management and Information System
KNBS	Kenya Bureau of National Statistics
MPC	Monetary Policy Committee
MTP	Medium Term Plan
NEER	Nominal Effective Exchange Rate
NPLs	Nonperforming Loans
NSE	Nairobi Stock Exchange
NSSF	National Social Security Fund
OMO	Open Market Operations
PFM	Public Finance Management
PPP	Public Private Partnership
RAC-ESF	Rapid Access Component – Exogenous Shocks Facility
REER	Real Effective Exchange Rate
SACCO	Savings and Credit Cooperatives
SDR	Special Drawing Rights
TA	Technical Assistance

EXECUTIVE SUMMARY

The Article IV discussions took place against the background of a nascent recovery from several adverse shocks that hit the economy beginning in 2008. The shocks affected economic activity and resulted in a loss of international reserves, threatening macroeconomic stability. Discussions focused on policies to strengthen growth and preserve macroeconomic stability. There was broad agreement on economic prospects and key policy issues:

- **Economic prospects**: After a moderate recovery in the first half of 2009, near and medium term prospects are broadly favorable, but risks remain. Staff expects that GDP growth will be about 4½ percent in 2010/11, and stay below its potential of 6 percent, at least until 2012/13. While the authorities agreed with staff on the near term prospects, they were more optimistic than staff regarding medium term growth.

- **Fiscal policy:** There was broad agreement that fiscal policy in 2009/10 should stimulate the economy, while preserving debt sustainability. Both staff and the authorities agreed that a deficit of around 6 percent of GDP would be appropriate to provide the required stimulus, through additional expenditure on infrastructure, food security, and pro-poor programs. The authorities remained committed to a fiscal anchor of 40 percent debt to GDP ratio, and were optimistic that after the temporary departure from the anchor due to countercyclical policies, they would converge to the target over the medium term as the stimulus is gradually withdrawn.

- **Monetary policy:** Staff supports CBK's countercyclical policies, which helped provide ample liquidity, brought interest rate down and kept GDP growth from falling further than it would otherwise have. Going forward, staff recommended that as the fiscal stimulus is gradually withdrawn and economic activity picks up, the focus should shift to safeguarding price stability. To better anchor monetary policy, staff recommends that the authorities give consideration to an eventual switch to inflation targeting and work on pre-conditions for such a move.

- **External stability:** The real exchange rate (corrected for the overestimated CPI), has appreciated, and the external current account widened. However, there was broad agreement that these seemed to reflect fundamental factors. Reserves remain at comfortable levels, although still below the levels of Kenya's EAC partners.

- **Structural reforms:** Staff notes that though partial progress was evident in the implementation of structural reforms in the fiscal arena, the reform agenda appears to have stalled in key areas, especially those requiring the enactment of legislation. There was agreement that in order to improve on competitiveness and increase growth outcomes, faster progress was required in implementation.

- **FSAP Mission:** The authorities broadly concurred with the main findings and recommendations of the September 2009 FSAP Update but had reservations with respect to the banking supervision assessment. Staff commends the CBK for proactive measures which mitigated the impact of the global financial crisis on banks. Remaining risks and vulnerabilities in the financial system need to be addressed.

I. Background

1. **Kenya's economic performance improved considerably in the 2004–07 period.** Sound economic policies, coupled with a favorable external environment contributed to an average real GDP growth of 6 percent, peaking at 7 percent in 2007. Significant progress was made in addressing structural issues in the financial sector. Some progress was achieved in addressing weaknesses in public financial management and governance, but much still remains to be done to accelerate economic growth through further structural reforms.

2. **The progress Kenya achieved on the growth and poverty reduction fronts stalled in 2008 due to a series of adverse developments, including the global economic crisis.** Post election violence in early 2008 affected economic activity while inflation accelerated due to the supply disruptions and dislocations, and an accommodative monetary policy. Successive shocks, including rising international prices, particularly of fuel and fertilizer; and poor rainfall in October–November 2008, exacerbated the decline in maize production and resulted in a food shortage. The spillover effect of the global financial crisis slowed export growth, tourism receipts, remittances and private capital inflows.

3. **The political situation is generally stable, but appears to be constraining consensus on key issues.** The coalition government that came to power under the terms of a power sharing arrangement in 2008 continues to face challenges. These include forming a consensus to advance the implementation of key structural reforms to support growth, implementation of the recommendations of the enquiry into the post-election violence, and the enactment of a new constitution that addresses long standing political grievances.

4. **Recent Fund advice in the context of surveillance as well as technical assistance has assisted the authorities in improving macroeconomic policy management (Box 1)**. At the conclusion of the 2008 Article IV Consultation, during which the *ex post assessment* of Kenya's longer term engagement with the Fund was discussed, Executive Directors commended the Kenyan authorities for maintaining economic stability in the wake of post-election turmoil of early 2008, and encouraged them to anchor fiscal policy on a ratio of total public debt to GDP. Directors also underscored the need to improve the monetary operations framework, and address the methodological flaws in the compilation of the CPI. They stressed the need for continued structural and governance reforms, and endorsed the findings of the *ex post assessment* mission. The authorities have since allowed fiscal policy to be guided by a debt to GDP ratio anchor, and have updated the GAP. A revised CPI series was issued in early November. Introduction of new CPI series, using an updated basket and weights, is planned for February 2010.[1]

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[1] In the meantime, staff macroeconomic assessments and projections are based on a modified series produced by staff that takes account of the overestimation.

Box 1. The Authorities' Response to Past Fund Advice

Kenya's relationship with the Fund improved after 2006, as the Fund increasingly put greater emphasis on macrocriticality of structural conditionality. The authorities became more receptive to Fund advice, and important progress was made on monetary, fiscal and financial sector policies.

Monetary and exchange rate policy: Important reforms, such as the introduction of an OMO process, a policy rate, and the horizontal repurchase agreement came out of TA recommendations. The authorities also came to accept Fund advice to allow full exchange and interest rate flexibility.

Fiscal policy: Fiscal policy advice implementation was generally good. Recent reforms improved tracking of aid flows, preparation of a draft organic budget law, implementation of new computerized financial information system, IFMIS, and preparatory work on program budgeting. Enactment of the PFM and other bills has been delayed.

Financial sector policy: Fund advice focused on strengthening the independence and oversight operations of the CBK, as well as aligning its legal and regulatory framework with international best practices. Fund advice supported the transfer of supervisory powers from the Ministry of Finance to the CBK, and introduction of an anti-money laundering bill. To foster financial sector development, TA has been provided on payments system; development of a secondary market for debt, and capital market oversight and regulation. Delays have been marked in areas requiring legislative change.

II. Multiple Shocks Weaken Economic Performance

Economic performance deteriorated in the aftermath of the multiple shocks that affected the economy since 2008. Fiscal and monetary policies appropriately aimed to support economic activity. Concerns about declining official reserves levels and a deterioration of the current account balance led the authorities to seek Fund financial assistance.

5. **Exogenous shocks, including high international food and fuel prices, global and regional slowdown, affected Kenya's economic performance in 2008, bringing real GDP growth down to 1¾ percent, from 7 percent in 2007.** After reaching a peak of 31.5 percent in May 2008, headline inflation declined, and stood at 17.9 percent in September 2009.[2] The steady decline largely reflects a pass through of lower international food and fuel prices and the slowdown of economic activity.

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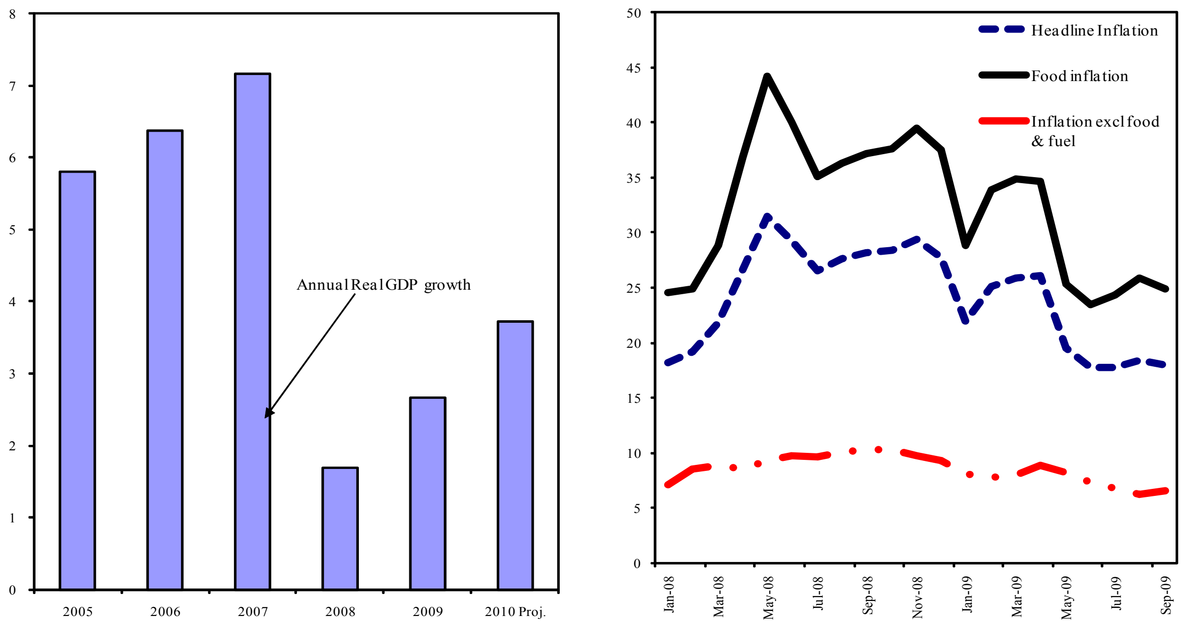
[2] These rates are based on the old methodology, which overestimates inflation.

Kenya: Real GDP and Inflation Developments



Source: Kenyan authorities and staff estimates and projections.
Inflation series based on old methodology, which overestimates inflation.

6. **Fiscal operations in 2008/09 fell short of the intended stimulus of 2.1 percent of GDP (cyclically adjusted).** Both nominal revenue and expenditure were below the budgeted level, reflecting a slowing economy and low implementation rates for foreign-funded projects, respectively.[3] In addition, the unfavorable market environment led to the postponement of a planned sovereign bond issue and privatization.

Kenya: Central Government Financial Operations, 2008/09 1/

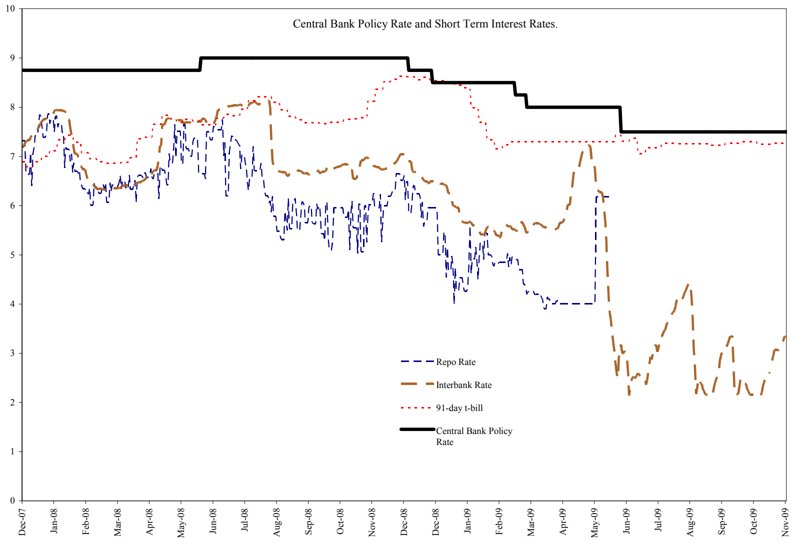
	2008/09	
	Budget	Estimate
	(In percent of GDP, unless otherwise indicated)	
Balance (cash basis, including grants)	-5.9	-3.7
Primary balance	-3.6	-1.0
Fiscal Impulse (unadjusted for cyclical position; - = fiscal withdrawal) 2/ 3/	2.6	0.1
Fiscal Impulse adjusted for cyclical position	2.1	-0.5
Memorandum items:		
GDP Growth (in percent)	2.5	2.2
Revenue	22.1	21.6
Grants	1.3	0.9
Primary expenditures (excluding foreign financed development spending)	23.2	21.5
Total public debt, net	42.6	40.2

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

1/ Fiscal year runs from July to June.
2/ Measured as change in primary balance.
3/ Assumes potential GDP growth of 5 percent and a cyclical elasticity of the primary balance of 0.2.

[3] Low implementation rates reflect recurring problems emanating from a number of factors, for instance, domestic capacity constraints, insufficient prioritization during the budget process, and donor conditionality.

7. **In line with the accommodative stance of the Central Bank of Kenya, (CBK), the policy rate, the CBR has been lowered by a total of 125 basis points since mid-2008.** The CRR has also been reduced twice, and now stands at 4½ percent, down from 6 percent in late 2008. Short term rates, including the interbank, repo and reverse repo rates are now at all time lows, reflecting ample liquidity in the system, but lending and treasury bill rates remain at around their pre-crisis levels.



8. **The overall balance of payments weakened substantially after mid-2008, resulting in a loss of reserves by the end of fiscal year 2008/09 (July–June).** In particular, the current account deficit widened to 7¾ percent of GDP, compared to 4½ percent of GDP the previous year, reflecting subdued agricultural exports and high imports stemming from increased maize imports and a relatively high oil import bill, notwithstanding the decline in world prices. At the same time, private capital flows declined sharply. As a result, the overall balance for 2008/09 registered a deficit US$423 million, (1½ percent of GDP). The deficit was financed in part by a drawdown on reserves and the June 2009 Fund assistance of about US$207 million under the RAC-ESF. Gross reserves stood at US$3.2 billion (3¼ months of import cover) at end-June, 2009.

III. The RAC-ESF Disbursement Provided Some Breathing Space

The outlook for global growth and commodity prices is more favorable than envisaged at the time of the authorities' request for financial support under the RAC-ESF, and the external position has improved. At the country level, economic conditions also improved, but prolonged drought has weakened agricultural output and hydroelectric power generation, resulting in the need to increase maize and petroleum imports to address food and hydroelectricity shortage. Progress on structural reforms is slow.

9. **Macroeconomic performance and adjustment to the various exogenous shocks improved moderately after the disbursement of SDR135.7 million under the RAC-ESF but new challenges have emerged.** The disbursement was meant to close the estimated cumulative financing gap for 2008/09 and 2009/10, while enabling an orderly rebuilding of foreign reserves. In the aftermath of the disbursement, foreign reserves reached almost 3.7 months of imports at end-September, including the US$350 million of general and special SDR allocations. Overall and food inflation declined. The decline in food inflation

was particularly aided by the large imports of maize, which filled the gap in domestic supply and stabilized prices. The authorities also increased expenditures on infrastructure and pro-poor programs, while supporting aggregate demand. The prolonged drought poses new challenges to the balance of payments stemming from higher levels of imports of maize and fuel than envisaged at the time of the RAC-ESF.

10. **Some progress has been made on structural and governance reform commitments made as part of the request for the RAC-ESF, however, much remains to be done.** After some delays, a revised CPI series based on a new methodology was released in early November and a pilot income support scheme has been designed.[4] The GAP has been updated, and some progress has been achieved in increasing transparency and access to government information by the public, for instance, in the area of public procurement. However, the PFM Bill, meant to address some weaknesses in structural fiscal issues, and the Banking Act (Amendment) Bill, which is meant to strengthen the hand of the CBK by authorizing consolidated supervision and prompt corrective action, are yet to be brought before Parliament. The plan to undertake a private capital flows surveys has been postponed to early 2010.

IV. The Outlook is Challenging

Economic growth is projected to remain below potential in the near term, and recover gradually over the medium term. Risks to the outlook are broadly balanced. Weather-related shocks cannot be ruled out.

11. **Near term prospects are challenging, and economic growth is projected to remain subdued in 2009 and early 2010.** The prospects for agriculture are worse than envisaged during the RAC-ESF disbursement, due to lower than expected rainfall. Given that Kenya is fairly well integrated into the global economy, recent improvements in economic conditions in advanced economies could benefit the Kenyan economy in the near term though exports, remittances, and net FDI are likely to remain below pre-crisis levels. A background analytical study which explores the role of spillover effects in explaining the slowdown and recovery found that spillover effects generally explain economic performance in the EAC. In the case of Kenya, the mild recovery in 2009 relative to 2008 is mainly premised on improved terms of trade and private financial flows (Box 2).[5] Staff estimates that GDP growth will be around 2¾ percent in 2009, and reach only 4½ percent in 2010.

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[4] A comprehensive vulnerability program (V-Program) has been designed to protect vulnerable and poor households in urban and rural areas from the effects of food insecurity. The pilot program, covering 40,000 households is to be implemented in Nairobi, Mombasa and Kisumu.

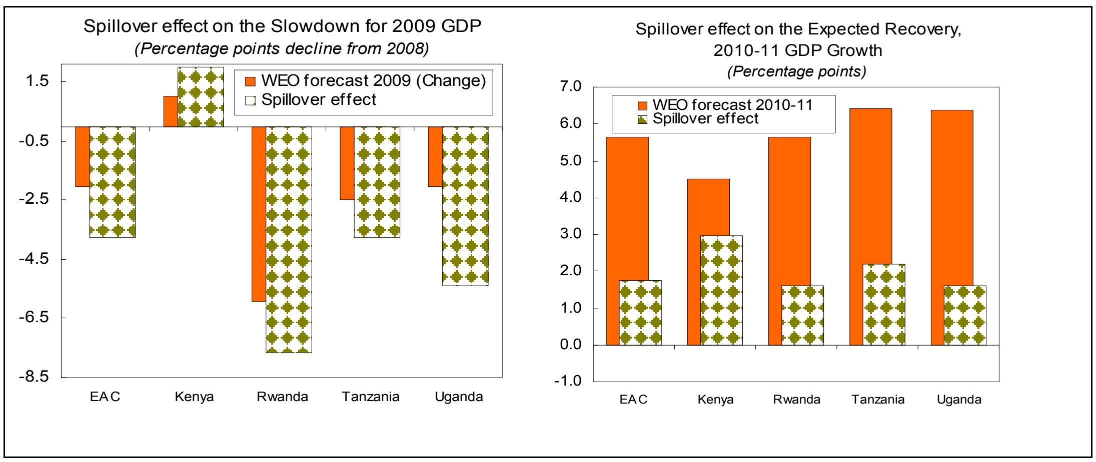
[5] See *"Spillover Effects and the East African Community Countries: Explaining the Slowdown and Recovery"* by Paulo Drummond, and Gustavo Ramirez Departmental Paper (DP/09/02). http://www.imf.org/external/pubs/ft/dp/2009/afr0902.pdf

Box 2. Spillover Effects and the EAC: Explaining the Slowdown and Recovery

Much of the recent downturn in the EAC can be explained by spillovers, according to estimates from a dynamic panel model for countries in the region. The model relates real growth in domestic output to world growth weighted by trading partner countries and to several control variables: oil prices, non-oil prices, a measure of global financial stress, and country fixed effects (see Drummond and Ramirez, 2009). The results suggest that spillover effects generally explain economic performance. Some domestic developments, including policy responses also seem to be at play.

Key messages

- In Kenya, the downturn came early in 2008 as the country suffered from external shocks amplified by adverse domestic developments. In 2009, the country is expected to post a mild recovery with positive spillovers largely arising from positive terms of trade and a recovery of net private capital flows.
- The EAC countries have generally responded to the slowdown with monetary and fiscal policy easing. Growth in the region is expected to rebound in 2010 and 2011 helped by a turnaround in trade as well as domestic stimulus. While the precise pace of the projected recovery remains highly uncertain, it seems that it might take at least a few years, for growth to catch-up with pre-crisis levels. In the coming years, adjustments to macroeconomic policy stances will be needed to sustain a strong recovery.



12. **The authorities and private sector groups were confident that an economic recovery was already underway**. They pointed out that tourist arrivals have now risen to pre-crisis levels, and manufacturing output has been strong, responding to regional EAC demand. They were of the opinion that global economic recovery would boost tourism, exports, and remittances, and that given the revival in business and consumer confidence, Kenya's perception as an investment destination could improve. Staff concurs with the assessment, but pointed out that the impact is likely to manifest in the medium term.

13. **Against this background, staff expects GDP growth to recover gradually, from 2¼ percent in 2008/09 to 6⅓ percent in the medium term.** Under this baseline scenario, savings and investment would pick up gradually, and reach their pre-crisis level by the end of

2010/11. As the savings rate increases, the current account deficit is projected to decline to 3½ percent of GDP by 2013/14, from 7 percent of GDP in 2009/10. This, together with the projected pickup in capital flows would allow for a gradual reserves buildup to 4 months of imports, from 3.7 months of imports currently.

14. **The outlook is subject to risks.** On the upside, there are incipient signs of recovery in business confidence, supported by appropriate fiscal and monetary policies. Another upside risk is a faster-than-currently envisaged global recovery. Downside risks include a more protracted global slowdown, and tensions within the coalition government which could impact negatively on investor confidence. In this regard, having a transparent constitutional referendum process is crucial. Delay in addressing infrastructure gaps and structural reforms could also weigh down growth prospects, while weather-related shocks are possible.

V. Policy Discussions

A. ***Discussions focused on policies aimed at putting the economy back on a sustainable growth trajectory. The main challenge is to provide the necessary stimulus while maintaining medium-term debt sustainability and keeping an eye on inflation. Maintaining vigilance in the financial sector and external stability remain crucial. At the same time, structural reforms to buttress the economy's resilience, improve governance and competitiveness need to be pursued.*** Supporting Economic Activity and Preserving Fiscal Sustainability

15. **The authorities plan to maintain countercyclical fiscal stance in 2009/10, and staff estimate the planned additional fiscal stimulus to be in order of 2.1 percent of (cyclically adjusted) GDP.** The increase in the deficit reflects mainly higher domestically-financed development spending, including in particular a stimulus package targeted at key infrastructure projects. The execution rate for foreign-financed capital expenditure is expected to improve, in part due to the kick-off of a number of large infrastructure projects.[6] Moreover, the authorities are undertaking additional measures to improve the execution rate, including: (i) setting up more frequent monitoring and review of projects; (ii) more active engagement of development partners through regular review meetings; and (iii) more rigorous selection criteria for inclusion of new projects in the budget. Revenue is projected to increase only slightly, consistent with the mild recovery in economic activity. Expenditure-prioritization and savings will serve to bring recurrent primary spending back to pre-crisis level.

16. Staff stressed the importance of maintaining the stimulus through the recovery process, while paying attention to medium-term fiscal sustainability. Staff recommended that over the medium term and as the economy recovers, the stimulus should be gradually

[6] For example, in highways and geo-thermal power generation.

withdrawn, with a view of converging towards the medium-term net debt-to-GDP target of 40 percent.[7] The authorities were receptive to the recommendation, and stated that they plan to begin to gradually withdraw the stimulus in 2010/11, and bring the deficit down from 6 percent of GDP to about 4½ percent of GDP by 2011/12 as economic growth gains ground.

Kenya: Central Government Financial Operations, 2009/10–2010/11 [1/]

	2009/2010	2010/2011	2011/2012
		Projections	
	(In percent of GDP, unless otherwise indicated)		
Balance (cash basis, including grants)	-6.0	-5.4	-4.3
Primary balance	-3.5	-2.8	-1.5
Fiscal Impulse (unadjusted for cyclical position; - = fiscal withdrawal) [2/ 3/]	2.4	-0.7	-1.3
Fiscal Impulse adjusted for cyclical position	2.1	-0.8	-1.2
Memorandum items:			
GDP Growth (in percent)	3.2	4.6	5.5
Revenue	22.3	22.7	23.2
Grants	1.2	1.2	1.4
Primary expenditures (excluding foreign financed development spending)	23.8	23.1	22.4
Total public debt, net	42.9	43.6	43.3

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

1/ Fiscal year runs from July to June. The fiscal projections for 2010/2011 and 2011/2012 reflect the authorities' medium term budget path.

2/ Measured as change in primary balance.

3/ Assumes potential GDP growth of 5 percent and a cyclical elasticity of the primary balance of 0.2.

17. **Staff agreed with the authorities' strategy, but noted that the fiscal outlook is not without risks.** The prolonged drought and the expected shortfall in maize harvest has brought additional pressures on the fiscal position, and additional expenditures on food security and drought mitigation is estimated at about **¾** percent of GDP.[8] Tax revenues may be lower than projected if the slowdown turns out to be more severe than expected, and a 1 percent slower-than-projected economic recovery could contribute an extra 0.1–0.2 percent of GDP to the deficit. In addition, planned savings in recurrent expenditures—about ⅓ percentage points of GDP—may fall short of the mark.

18. Staff recommended that if these risks were to materialize, the deficit should not be allowed to exceed 6½ percent of GDP, i.e., ½ percent of GDP higher than projected. Staff indicated that (i) this stance already entails a substantial stimulus; (ii) additional bank financing could lead to crowding out of credit to the private sector; and (iii) a higher deficit in 2009/10 would create doubts about the feasibility of bringing deficits back down to sustainable levels in later years, particularly in an electoral context. The authorities concurred

[7] Departure from the 35 percent debt to GDP ratio anchor agreed in (Country Report No. 08/339) is due to the recent multiple shocks Kenya faced, which have significantly weakened medium-term growth prospects, thus requiring the countercyclical fiscal policy stance.

[8] This figure could be lower if the current rains continue normally, thereby obviating the need for drought relief measures.

with staff recommendation and emphasized their intention to contain expenditure within the budgetary envelop as much as possible. In addition, they plan to raise most of the domestic debt from nonbank sources, so as to minimize the crowding out of banking system credit to the private sector.[9]

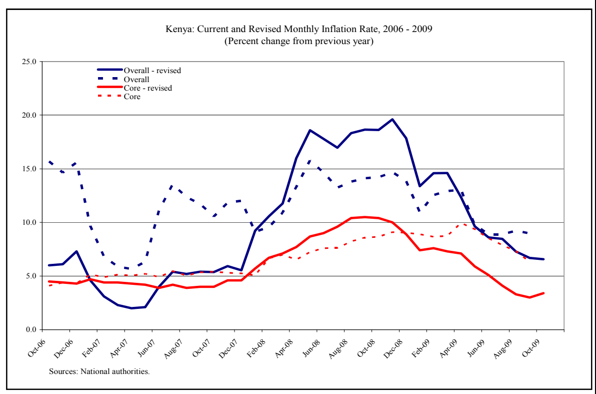
19. **Kenya's public and external debt indicators show a low risk of debt distress.** The May 2009 debt sustainability analysis remains appropriate even in light of recent developments.[10] It suggests that under the baseline scenario, Kenya's debt indicators are below the indicative thresholds for a medium performer. Under alternative scenarios and stress tests, external debt indicators are generally resilient, while total public debt indicators are at greater risk of unfavorable developments, especially under a shock to GDP growth.

B. Safeguarding Price Stability While Providing Sufficient Liquidity to Support Economic Activity

20. **Assessment of both the stance and impact of monetary policy was in the past difficult given the flaws in the CPI series.** With the release of the revised CPI, it is evident that CBK's countercyclical policies were appropriate, given the fact that the inflation environment was benign. After a long period of continuous easing of monetary policy, which began in the second half of 2008, the countercyclical actions appear to have moderated since July 2009. Considering this, staff broadly supports the initial loosening of monetary policy, which has helped support growth, including by allowing for increased government borrowing to be financed without driving interest rates up. Nevertheless, concerns with inflation remain, especially as the economy enters a recovery phase.

Box 3. Results of the Revision to the CPI Methodology

The KNBS released a revised CPI showing that headline inflation averaged 12.8 percent in the past two years, compared to the reported average of 22.5 percent. The revised series is based on the current basket, but the linked-Carli aggregation method, which contains a substantial upward bias, was replaced with a geometric mean method.



Headline inflation for the 12 months ending October was 6.6 percent, compared with a reported 17.9 percent in September, using the original methodology, while nonfood inflation was 3.4 percent. The KNBS will release a new index in February 2010, using the revised methodology but based on an updated basket and broader geographical coverage.

[9] The monetary program for 2009/10 reflects this.

[10] IMF Country Report No 09/191

21. **Staff considers that further monetary easing is not warranted, and policy should progressively shift focus to safeguarding price stability.** Staff argued that given ample bank liquidity, the strengthening economy, and the envisaged fiscal stimulus, further easing could increase inflationary pressures in the future. Besides, while the impact of monetary easing on inflation might be small in the relatively benign current environment of weak aggregate demand, this may not be so as the economy recovers. Price stability should be a prime focus of monetary policy, and a comprehensive revised CPI would facilitate the assessment of its effectiveness. Staff welcomes the revised CPI as it corrects the previous over-estimation. The planned introduction of a new CPI series based on a revised, broad-based basket would further increase the reliability of the index.

22. **The implementation of monetary operations needs to be further improved.** First, recent monetary policy statements have indicated that the central bank policy rate (used for lending to banks) is being lowered to signal CBK's intention to ease monetary policy and exert downward pressure on market rates. However, while the lending rates have come down slightly, they remain high due to structural impediments that lead to a weak transmission mechanism between the CBR and market rates. Second, CBK has been using the CRR instrument to inject liquidity into the system. However, adjustments to the CRR are not good for active liquidity management. Third, monetary policy intentions are not conveyed with sufficient clarity and specific reference to monetary targets. Instead, in monetary policy statements, envisaged actions are generally expressed in terms of policy rate changes, whose impact on both market rates and monetary aggregates is, at best, not well established.

The authorities agreed with staff's assessment, and stated that they are working towards a better understanding of the monetary transmission mechanism. In this regard, they are developing a model to aid their understanding and enhance policy implementation, and they plan to share preliminary results with staff in early December. In the meantime, broad money remains the nominal anchor and reserve money the operational target. However, given the uncertainties in money demand, an inflation targeting regime could eventually be considered once further progress has been made on pre-conditions for switching to such a regime. In the meantime, staff encouraged CBK to rely on the use of its other monetary instruments such as repos/reverse repos and/or foreign exchange sales/purchases for liquidity management.

C. Maintaining Vigilance in the Financial Sector

Despite the overall economic weakness, the recent FSAP Update mission concluded that the banking sector remains sound. Banks' financial conditions were generally good and aggregate capitalization is almost 20 percent on a risk-weighted basis. This compares well with a required minimum of 12 percent and a 17–18 percent average for sub-Saharan African countries. The quality of capital appears good, with most being core capital.[11] Though the rapid growth in credit over the last few years raises the specter of asset quality deterioration,

[11] Core capital is Basel tier 1 capital less intangible assets.

particularly in the context of a slowing economy, NPL ratio, at 9 percent in August 2009, is low by comparison with that of 2007. Notwithstanding the high credit growth, the banking system has become more resilient, and macroeconomic stress tests scenarios based on exogenous shocks like drought, decline in tourism, a protracted global recession, and political turmoil suggest that such shocks would not lead to insolvency.

23. **Direct effects of the global financial crisis were partially contained by CBK's proactive supervision.** At the onset of the crisis, CBK banking supervision department stepped up the supervision of banks in order to detect any immediate stress in the system. Commercial banks introduced stricter appraisal of new credit facilities, coupled with close and continuous monitoring of existing credit portfolio. Some banks limited foreign currency loans, and reappraised relationships with foreign banks so as to limit exposure to foreign exchange risk. A staff study (Box 4) indicates that due largely to the policies initiated, banks were able to reduce their risk and vulnerability to exchange rate shocks.[12]

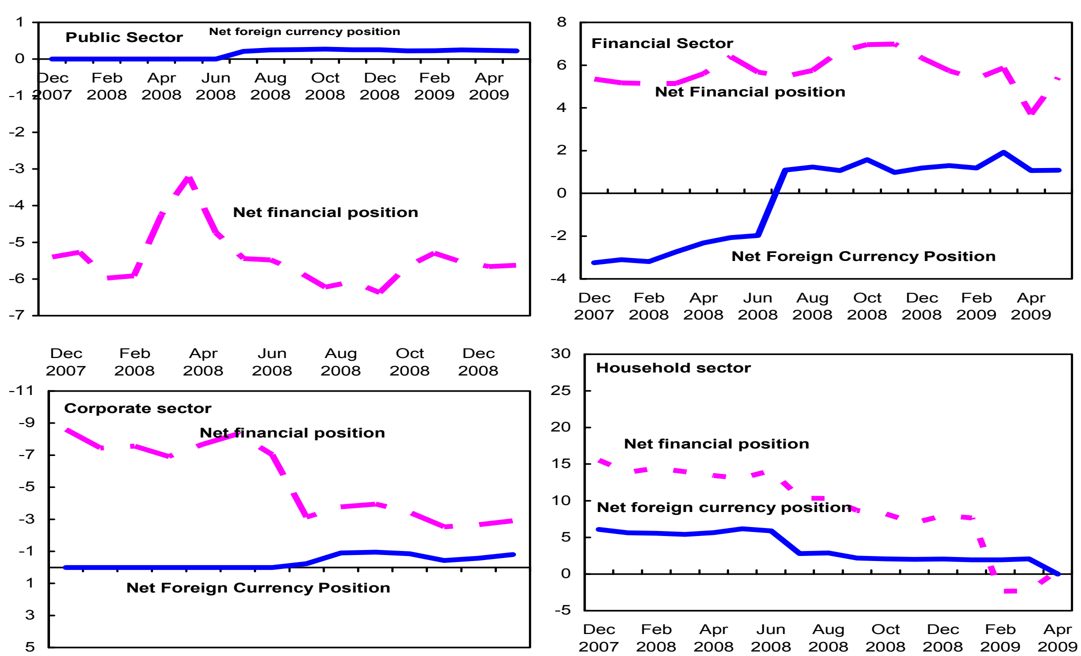
[12] See *The Global Financial Crisis and Adjustment to Shocks in Kenya, Tanzania and Uganda – A Balance Sheet Analysis Perspective"* by Iyabo Masha. Departmental Paper (DP/09/04) http://www.imf.org/external/pubs/ft/dp/2009/afr0904.pdf

Box 4. Global Financial Crisis and Adjustment to Shocks in Kenya, Tanzania and Uganda—A Balance Sheet Perspective

A staff study applied a limited version of the Balance Sheet Analysis (BSA) to banking system balance sheets from Kenya, Tanzania and Uganda, with a view to determining how sectoral balances have moved in response to the financial crisis and whether or not vulnerabilities have increased. Using both annual (2001 – 2008) and monthly data (January 2007–May 2009), the paper analyzed the changes in the assets and liabilities of five sectors of the economy: the central bank, the government, the banking system, the corporate sector and households. It then derived the **net financial position (NFP) and the net foreign currency position (NFCP).** NFP is overall financial assets minus financial liabilities, with a large negative position indicating solvency problems. NFCP is foreign currency assets minus foreign currency liabilities with a large negative (positive) position indicating vulnerability to exchange rate depreciation (appreciation) risks.

Central banks throughout region hold positive net foreign assets, implying a loss (at book value of local currency) in the event of exchange rate appreciation, while all other sectors were at risks of both interest and exchange rate shocks. With respect to Kenya, it was found that the overall financial and foreign currency positions of all sectors of the economy vis-à-vis the banking system, responded to the economic cycle in the past 18 months. Public sector financial position deteriorated after mid 2008. This was made possible by higher levels of domestic financing. Banks improved their net foreign currency position from mid-2008 following substantial reduction in foreign currency liabilities, especially loans. The reduction in foreign currency liabilities improved the net foreign currency position of the corporate private sector, and net financial position also improved as nonrenewal of credit lines and tightening of lending standards by banks contributed to a decline in the corporate sector's liabilities. Household positions, however, deteriorated in response to the economic cycle as their assets— mainly deposits—fell.

Kenya: Sectoral Balances and Vulnerabilities
(in percent of GDP)



Source: Kenyan authorities, and staff estimates and projections.

24. **The financial sector has deepened since the 2003 FSAP, but key risks need to be addressed.** Microfinance institutions and banks' presence have grown in lower income market segments, presenting the SACCO sector with competition. Nevertheless, legislative authority to address existing and possible risks, and the manpower resources for more sophisticated and rigorous supervision, are lagging. In the capital market, corporate governance reform and plans to demutualize the NSE, key corrective measures, are pending. The NSSF is inadequately managed and overseen, and in the event of a systemic event impacting the fund, government's scope for response could be severely constrained by fiscal limitations. In addition, poor regulation and low funding of defined benefit pension schemes could amplify financial shocks. There are also risks and vulnerabilities from increasing regionalization, including rising foreign entry and transactions among regional financial firms, which require more sophisticated regulation; but progress in both cross-border and domestic consolidated supervision is slow.

25. **Several pieces of legislation—including the banking, deposit insurance and national payments system bills—are yet to be submitted to Cabinet for final approval by the executive.** Importantly the Anti-Money Laundering Bill is still in Parliament. Without submission and passage of these bills, supervision and control of the financial sector will remain constrained. In addition, the finalization and implementation of the draft national pension strategy provides an opportunity to ensure that the NSSF comply with legal requirements for outsourcing asset management, and to reform the Civil Service Pension Scheme.

D. Mitigating External Vulnerabilities

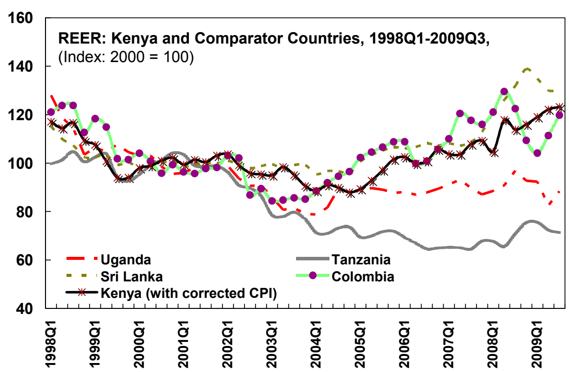
26. **The floating exchange rate regime has continued to support macroeconomic stability by absorbing terms of trade and other exogenous shocks.** Consistent with the regime, the authorities intend to continue to allow the exchange rate to be market-determined, with interventions limited to smoothing out excessive exchange rate volatility, and gradually building international reserves. Over the year to 2009Q3, the NEER depreciated by $5^3/_4$ percent while the REER appreciated by almost 6 percent. The authorities indicated that their internal assessment did not point to exchange rate misalignment. This assessment is in line with staff's REER and external stability analysis, which finds no evidence of misalignment or threat to external stability (Box 5).

Box 5. External Stability and Competitiveness

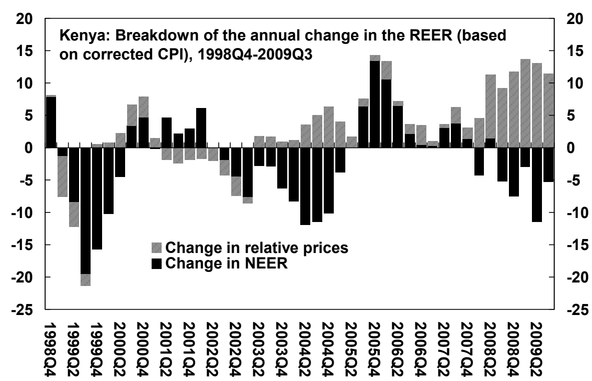
Kenya's REER has appreciated faster than those of some selected coffee and tea exporters, but the appreciation has not as yet affected competitiveness. Between end-2007 and end-September 2009, the CPI-based REER appreciated by 13¾ percent, using a modified CPI series. On an annual basis, the recent REER appreciation was driven by relative price changes, as the NEER depreciated (upper right chart, below). Nonetheless, the REER appreciation does not seem to have so far weakened Kenya's competitiveness. Trade data suggests that Kenya has maintained its share of world exports.

Despite the REER appreciation and the widening of the current account deficit since 2005, the CGER methodology, using data as of end September-2009 does not point to exchange rate misalignments or external stability problems. Two of the methods—the EREER approach and the external sustainability approach—yield undervaluations in the 1– 9⅓ percent range (lower left quadrant). As of now, these misalignments are of no great concern. An important caveat to the findings is the uncertainty associated with assumptions used and model specification. The result from the EREER approach is based on the Kenya specific equation estimated in the 2008 Article IV Selected Issues Paper. It suggests that the appreciation of the REER reflects changes in fundamentals, including high coffee and tea prices and improved productivity.

Survey-based indicators of competitiveness suggest that Kenya has room for improving its score in some areas. Compared to its regional partners and competitors, Tanzania and Uganda, it scores relatively well on infrastructure and property rights, and relatively poorly on burdensome government regulations and procedures. Sri Lanka and Colombia generally score better than Kenya (lower right quadrant). Addressing weaknesses in the selected structural areas and others would help enhance competitiveness.



Source: IMF, Staff Estimates



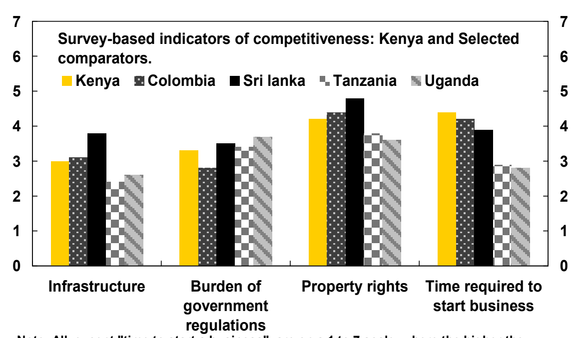
Key assumptions: underlying current account balance -3 % GDP; medium-term nominal growth: 12.5 %; capital grants: 0.7 % GDP.

Methodologies	Current account norm	REER Misalignment
EREER approach		-2.6 percent
ES approach		
Stabilize ext. debt at 22.8 percent of GDP[1]	-3.3	-1.1 percent
Stabilize ext. debt at 32.8 percent of GDP[2]	-4.4	-6.0 percent
Stabilize NFA at -39.8 percent of GDP[3]	-5.2	-9.3 percent

[1] 22.8 is the 2008 average external debt-to-GDP of PRGF-eligible countries. It is roughly the same as Kenya's external debt at end-Sept 2009.

[2] 32.8 is the 2008 average ext. debt-to-GDP of SSA excl.South Africa and Nigeria.

[3] Estimated Kenya's NFA at end-2008.



Note: All, except "time to start a business", are on a 1 to 7 scale, where the higher the number the better. Time to start a business is in days and was rescaled by dividing by 10. Small numbers desirable.

Source: World Economic Forum and World Bank Cost of Doing Business

27. **The authorities indicated that they will continue their strategy of building reserves.** In this regard, the SDR allocations, about US$350 million, will go to reserves buildup. Kenya's reserves are below the minimum of 4 months of imports that the CBK is

mandated to observe by the CBK Act, and below the EAC convergence criterion. Also, a staff analysis suggests that Kenya does not fare as well as its EAC partners on several metrics of reserves adequacy.[13] Against this background, staff agreed with the authorities' desire to build up reserves while noting the need to be mindful of carry cost of reserves, and the liquidity impact of the purchases on monetary aggregates and inflation.

E. Accelerating Economic Growth with Structural Reforms

28. **There has been a modest improvement in implementing fiscal structural reforms.** IFMIS has been rolled out to 48 ministries and spending units, leaving only 4 to be covered. However, budget, procurement and payroll modules have not been deployed, thereby limiting its effectiveness. EFT was successfully launched at the beginning of October, and covers virtually all payments above Ksh 1 million, (about US$13,500).[14]

29. **Nevertheless, a significant PFM agenda—the main plank of economic governance—remains.** Staff recommended the urgent submission to Parliament of the draft PFM bill. The bill aims at revising the legal framework for public finance management to ensure appropriate budget execution, accounting and internal audit. Staff also recommended: (i) improving treasury cash management (including making operational the treasury single account); (ii) monitoring and managing the growth of semi-autonomous government agencies and extra-budgetary funds; and (iii) improving the coverage, reliability and relevance of in-year fiscal accounting and reporting. In addition, plans to quantify contingent liabilities have been partially completed, and staff recommended adopting policies aimed at moderating their size. The authorities are planning to submit a PPP bill to parliament, in the meanwhile, they have issued regulations under a law on specialized procurement as an interim measure.

30. **The authorities acknowledged the slow pace of legislative enactments, which affected the PFM, AML, Banking, Deposit Insurance, National Payment System; and several other bills.** They indicated that the problems were in part related to limited availability of personnel with parliamentary drafting skills in the Attorney General's department. As a result, there were significant delays in submitting bills to Parliament. However, they emphasized that this did not indicate a wavering commitment on their part, and that a number of bills would be submitted during the November session of Parliament.

31. **A number of reforms of monetary operations have been implemented, but much remains to be done to improve the transmission mechanism of monetary policy.** Recent reforms include the extension of the tenure of repo securities, and changes in the framework for forecasting liquidity for better estimates of monetary conditions. Staff was of the view

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[13] See *"Foreign Exchange Reserve Adequacy in the East African Community Countries"* by Paulo Drummond, Aristide Mrenna, Stéphane Roudet, and Mika Saito Departmental Paper (DP/09/01). http://www.imf.org/external/pubs/ft/dp/2009/afr0901.pdf

[14] By January 1, 2010, all cash payments to civil servants will cease.

that the newly introduced HRA should be used more widely by banks in the interbank market, as this could improve the distribution of liquidity among banks, which is sometimes skewed. The authorities agreed, but stated that the use of HRA has been limited due to delayed issuance of settlement agreements which created concerns of counterparty risks. In addition, they noted that several banks are still on a learning curve, and the shallowness of the secondary market necessitated deep haircuts when they use the facility. They were optimistic that over time, its usage would become popular.

32. **The First Medium-Term Plan (MTP) 2008-2012 of Kenya Vision 2030 was officially transmitted as the authorities' PRSP.** The MTP is the near-term program for the Kenya Vision 2030 long-term development blueprint, which was launched in 2007 after a broad-based consultation process. Both the MTP and Vision 2030 have the overriding goal of making Kenya a "*globally competitive and prosperous nation with a high quality of life"* by 2030, and are anchored on three pillars: an economic, a social and a political pillar. The economic pillar underpins the vision for growth and development. The social pillar seeks to build a just, cohesive society with equitable social development in a clean and secure environment. The political pillar aims at realizing a democratic political system that nurtures issue-based politics, respects the rule of law, and protects all the rights and freedom of every individual in society. Preparation of a Joint Staff Advisory Note by staffs of IMF and World Bank is underway.

33. **The authorities pointed to recent measures aimed at reducing taxes on imports and reiterated their desire to pursue trade liberalization efforts and to maintain an exchange system free of restrictions.** The 2009/10 Finance Act contains several measures that reduce import taxes on several consumption and capital goods, with the aim of supporting economic growth, protecting jobs, and reducing poverty. Also, in response to the shortage of maize resulting from the drought, the authorities allowed temporary duty-free import of maize, until February 2010. However, the recent increase in import duties on wheat, aimed at protecting local farmers, is a setback. In addition, sugar imports remain constrained by a ceiling on duty free imports from COMESA countries and a 100 percent duty beyond the duty free quota. The authorities noted that existing tariffs will be reviewed in the context of the EAC customs union scheduled for 2010. They indicated that EAC negotiations with the EU in the context of its EPA were at a standstill owing to a number of unresolved issues.

VI. Staff Appraisal

34. **Kenya's robust expansion since 2003 has been cut short by a series of shocks.** Sound macroeconomic policies, progressive implementation of structural reforms, and a favorable external environment supported the expansion. The economic outlook has changed sharply as a result various shocks in 2008, including the global financial crisis, even though the direct effects of the crisis on the domestic financial system were modest. The economy has already shown signs of recovery, but the pace of growth is projected to be below potential at least until 2011/12. There are downside risks to the outlook: a deeper or more

protracted global downturn than currently anticipated or deteriorating domestic economic and political conditions could lower growth.

35. **Fiscal policy needs to strike an appropriate balance between stimulating the economy and preserving debt sustainability.** The 2009/10 budget, which targets a deficit of around 6 percent of GDP is broadly appropriate to provide the required stimulus. However, given risks to both revenue and expenditure, additional expenditure could be needed to support the recovery and the most vulnerable people. In this regard, an increase in the deficit, by about ½ percentage point of GDP could be warranted. Given the temporary departure from the fiscal anchor to accommodate cyclical developments, convergence to the anchor in the medium term should be a prime objective of fiscal policy.

36. **The easing of monetary policy by CBK was appropriate, but the focus now needs to turn to safeguarding price stability and reforming the monetary policy framework.** CBK's countercyclical policies together with the low level of economic activity allowed for subdued interest rate, and kept GDP from falling further than it would otherwise have. Given the nascent strengthening of private sector activity, and ongoing fiscal stimulus, the focus should now shift to safeguarding price stability. The release of a revised CPI is welcome, and the planned release of a new series in February would facilitate the proper monitoring of price developments and the effectiveness of policy. Monetary policy intermediate targets need to be stated with clarity and available instruments need to be employed decisively in order to achieve these targets. In this regard, reforms of the monetary framework, including planned analytical work on the transmission of monetary policy is welcome, and moving to an inflation targeting regime could be considered once the necessary pre-requisites have been met.

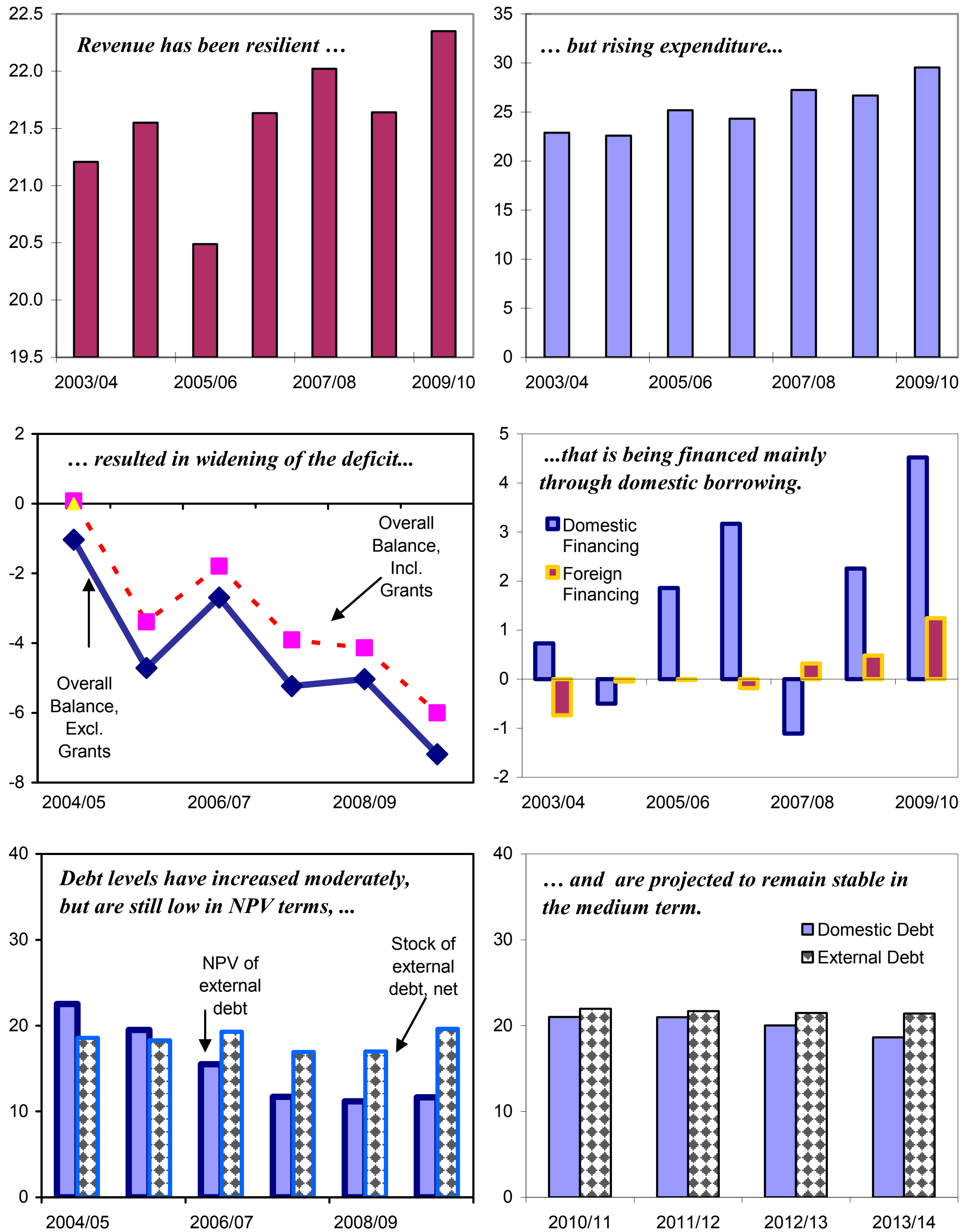
37. **The financial sector has so far weathered the immediate impact of the global crisis well, but risks remains.** Staff commends the CBK for proactive measures which mitigated the impact of the global financial crisis on the balance sheet of banks, and recommend that it stands ready to address any emerging weakness going forward. The assessment of the FSAP mission that the banking sector remains well-capitalized and adequately provisioned is reassuring. CBK would need to continue engaging with banks to ensure that provisions and capital buffers remain adequate to meet future risks. Remaining risks in the financial sector such as inadequate regulation and funding of social security fund and other pension schemes; the regulation and supervision of cross border transactions; and risks from increasing regionalization; should be addressed expeditiously.

38. **While the external current account deficit has increased, there appear to be no major risks to external stability.** The appreciation of the real exchange rate seems broadly in line with economic fundamentals, with strong capital inflows financing the current account deficit and foreign reserves increasing. Under these circumstances, foreign exchange market interventions should remain limited to smoothing excessive short-term volatility and meeting the foreign reserve target.

39. **Advancing broad-based structural and governance reforms to ensure strong economic growth over the medium and long term should remain a priority.** Priority should be given to the reforms of public finance management, governance, and financial sector which are much needed to complement sound macroeconomic policies. Improvement of human resource to facilitate the speedy drafting and review of new bills is essential. The introduction of an income support scheme aimed at protecting the vulnerable and poor households would address food deficit in an efficient manner.

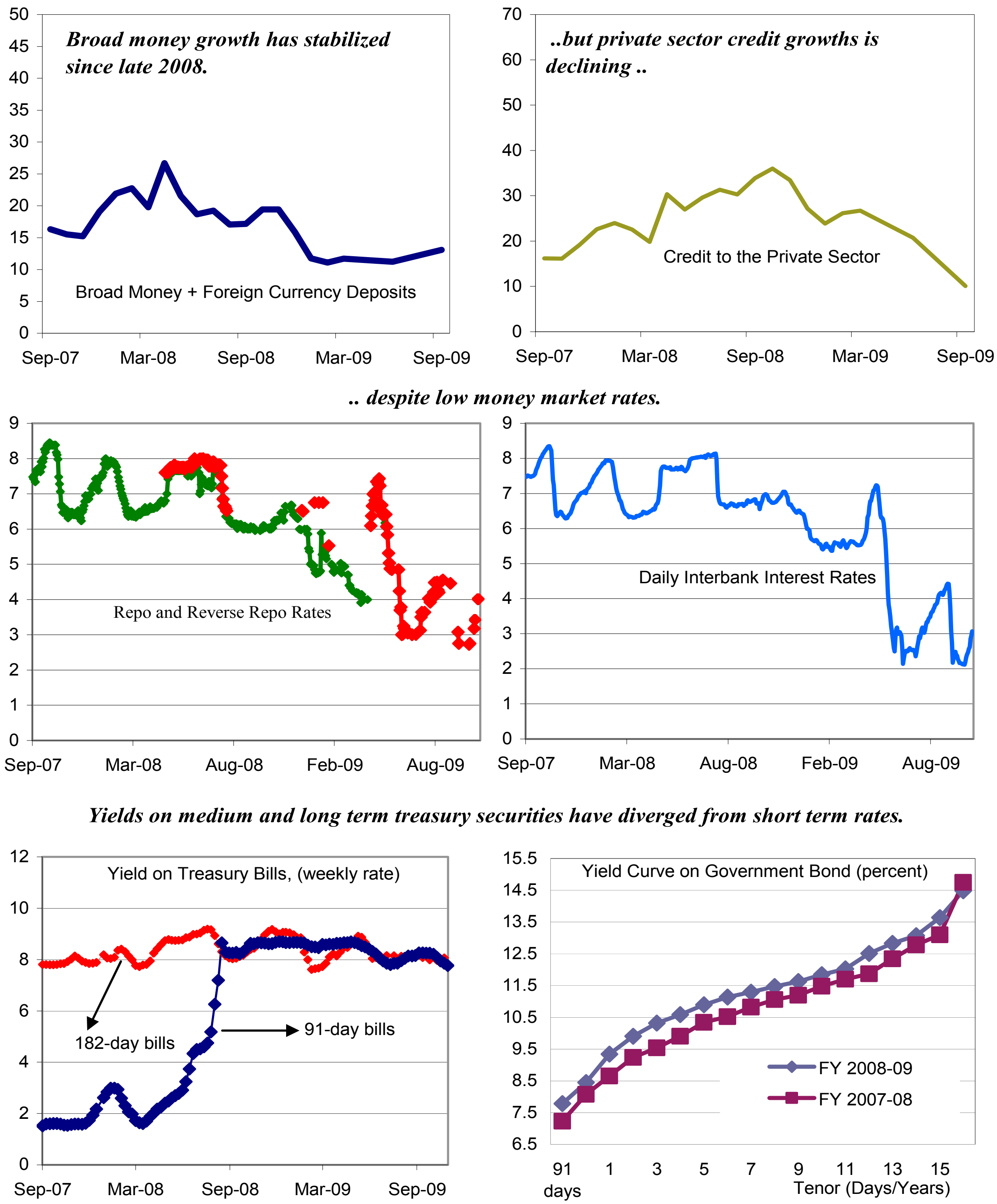
40. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Kenya: Fiscal Sector Developments
(In percent of GDP)



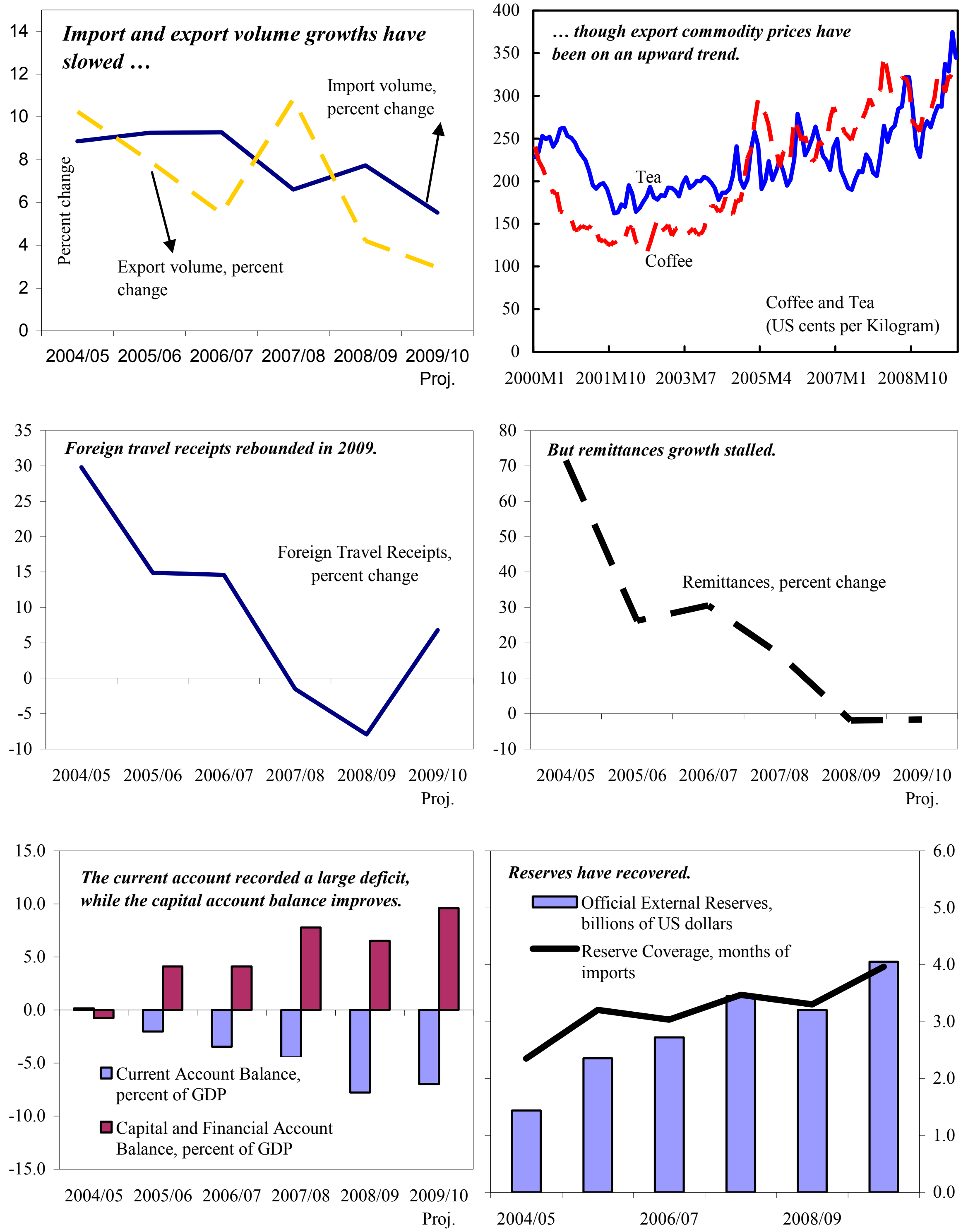
Source: Kenyan authorities; and staff estimates and projections.

Figure 2. Kenya: Money and Prices



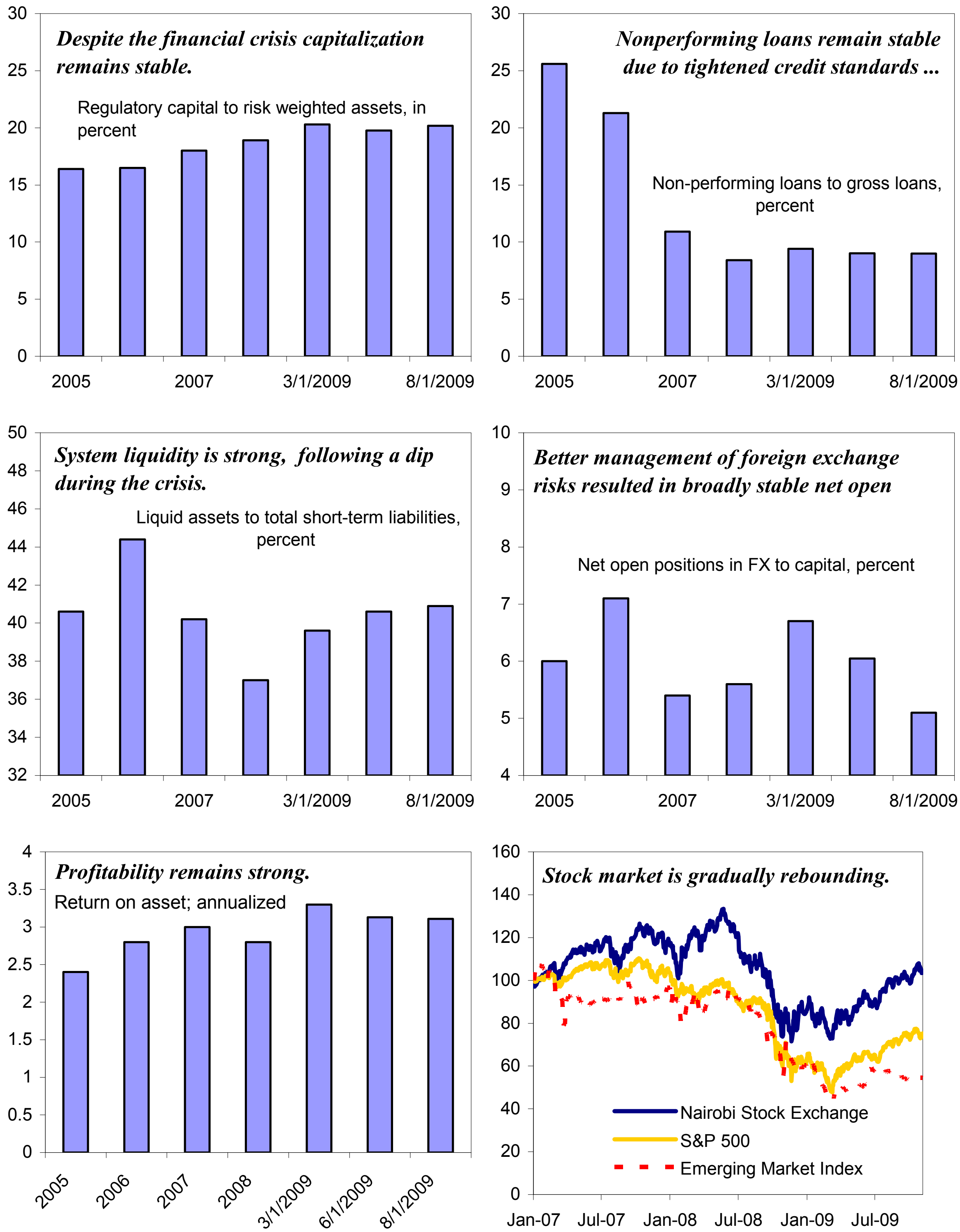
Source: Kenyan authorities; and staff estimates and projections.

Figure 3 Kenya: External Sector Developments



Source: Kenyan authorities, and staff estimates and projections.

Figure 4. Kenya: Financial Markets Developments



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

Table 1. Kenya: Selected Economic Indicators, 2006/07–2013/2014

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Actual	Estimate	Projections				
	(Annual percentage change, unless otherwise indicated)							
National accounts and prices								
Nominal GDP (Market prices, in billions of Kenya shillings)	1,724	1,963	2,255	2,536	2,793	3,103	3,475	3,897
Real GDP growth (market prices)	6.7	4.3	2.2	3.2	4.6	5.5	6.3	6.5
Real GDP per capita	4.1	1.7	0.0	1.4	2.8	3.7	4.5	4.7
GDP deflator (average) [1]	6.3	9.1	12.4	9.0	5.3	5.3	5.3	5.3
Consumer price index (annual average) [1]	10.4	18.5	12.5	8.5	5.0	5.0	5.0	5.0
Consumer price index (end of period) [1]	11.1	29.3	8.9	7.0	5.0	5.0	5.0	5.0
Import volume growth, goods and services	9.3	6.4	7.8	5.1	2.1	7.1	8.5	7.4
Import value growth, goods and services	22.3	23.4	3.9	-3.3	8.5	10.6	11.5	10.3
Export volume growth, goods and services	5.5	10.7	4.0	2.9	7.5	8.3	9.4	10.3
Export value growth, goods and services	19.9	1.8	-3.0	11.5	12.5	14.7	15.8	0.0
Terms of trade, goods and services	-2.3	-9.2	-0.3	2.8	-4.3	-0.3	0.9	0.7
Ksh per US $ exchange rate (end of period) [2]	62.6	64.6	76.3	74.5	…	…	…	…
Nominal effective exchange rate (- depreciation; end of period)	5.9	3.0	-6.8	…	…	…	…	…
Real effective exchange rate (- depreciation; end of period)	14.2	7.8	5.1	…	…	…	…	…
Money and credit								
M3X (broad money and foreign currency deposits, end period)	17.0	18.7	12.5	14.8				
Reserve money (end of period)	19.8	18.2	4.6	12.8				
	(In percent of GDP, unless otherwise indicated)							
Investment and saving								
Investment	**18.5**	**19.1**	**18.9**	**18.8**	**19.1**	**19.1**	**20.0**	**21.0**
Central government	4.6	6.6	7.0	9.2	9.6	9.0	9.2	9.4
Other	13.9	12.5	11.8	9.6	9.5	10.1	10.8	11.6
Gross national saving	**15.1**	**14.8**	**11.0**	**11.8**	**13.7**	**13.7**	**15.4**	**17.4**
Central government	2.0	1.7	2.3	2.3	3.3	3.7	4.4	5.1
Other	13.1	13.2	8.7	9.4	10.4	10.0	11.0	12.3
Central government budget								
Total revenue	21.6	22.0	21.6	22.3	22.7	23.2	23.5	23.8
Total expenditure and net lending	24.3	27.3	26.5	29.5	29.3	28.7	28.6	28.3
Overall balance (commitment basis) excluding grants	-2.7	-5.2	-4.8	-7.2	-6.6	-5.5	-5.0	-4.6
Overall balance (cash basis) including grants	-1.7	-3.4	-3.7	-6.0	-5.4	-4.3	-3.4	-3.0
Net domestic borrowing	2.0	-1.1	3.0	4.5	3.2	2.1	1.3	0.8
Total donor support (grants & loans)	1.5	2.5	2.1	3.2	3.1	3.2	3.5	3.8
Balance of payments								
Exports value, goods and services	26.2	25.4	26.6	23.0	22.1	21.8	22.1	22.5
Imports value, goods and services	35.8	35.9	40.6	36.2	33.5	32.8	32.6	32.1
Current external balance, including official transfers	-3.5	-4.3	-7.8	-7.1	-5.3	-5.3	-4.6	-3.6
Current external balance, excluding official transfers	-3.5	-4.5	-7.8	-7.0	-5.3	-5.3	-4.5	-3.6
Gross international reserve coverage								
in months of next year imports (end of period)	3.0	3.5	3.3	4.0	4.0	4.0	4.1	4.2
Public Debt								
Total public debt, net (end of period)	**42.0**	**37.2**	**40.2**	**42.9**	**43.6**	**43.3**	**42.0**	**40.5**
Of which: external debt	22.7	20.3	22.4	22.5	22.0	21.7	21.5	21.4
NPV of central government debt (end of period)	**34.8**	**28.6**	**29.0**	**32.0**	**33.4**	**33.5**	**32.7**	**31.4**
Of which: NPV of external debt	15.5	11.7	11.2	11.7	11.8	11.9	12.1	12.3
Domestic debt, net of deposits (end of period)	19.3	16.9	17.8	20.4	21.7	21.6	20.5	19.1

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

[1] Up to 2007/08, GDP Deflator and Consumer Price Index are overestimated.

[2] Actual as of November 20, 2009.

Table 2a. Kenya: Central Government Financial Operations, 2006/07–2013/14 [1]

	2006/07	2007/08	2008/09	2009/10			2010/11	2011/12	2012/13	2013/14
	Actual	Estimate	Estimate	ESF SR	Budget BSP09/10	Staff Projection	Projections			
	(In billions of Kenyan shillings, unless otherwise indicated)									
Revenues and grants	**388.5**	**458.1**	**508.0**	**600.7**	**604.8**	**596.8**	**667.6**	**757.9**	**873.5**	**985.2**
Revenue	**373.0**	**432.2**	**487.9**	**565.1**	**569.5**	**566.7**	**634.9**	**720.5**	**817.8**	**925.7**
Tax revenue	311.6	372.2	426.6	475.9	487.3	485.0	544.9	618.5	703.7	797.7
Income tax	131.5	165.5	193.7	217.8	220.2	219.7	243.8	272.5	306.8	345.6
Import duty (net)	27.5	32.9	36.2	41.6	40.6	39.2	45.8	56.1	68.8	82.1
Excise duty	56.4	61.9	69.9	75.2	78.1	77.4	84.6	95.5	106.7	118.9
Value-added tax	96.3	111.9	126.9	141.3	148.4	148.6	170.7	194.4	221.5	251.0
Nontax revenue	61.4	60.0	61.3	89.1	82.2	81.7	90.0	101.9	114.1	128.0
Investment income	6.6	3.1	6.9	6.7	9.0	9.0	9.9	11.0	12.3	13.8
Other	28.4	29.8	31.5	41.0	37.5	37.3	41.1	47.7	53.4	59.9
Ministerial and Departmental Fees (AIA)	26.4	27.1	22.9	41.4	35.7	35.3	38.9	43.2	48.4	54.3
Grants	**15.5**	**25.9**	**20.1**	**35.6**	**35.3**	**30.1**	**32.7**	**37.4**	**55.6**	**59.5**
Food/debt relief grants [2]	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	15.5	21.7	20.1	35.6	35.3	30.1	32.7	37.4	55.6	59.5
Program grants	0.0	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**419.5**	**534.9**	**596.5**	**741.7**	**772.4**	**748.9**	**818.0**	**891.0**	**992.4**	**1,103.4**
Recurrent expenditure	339.2	403.4	435.5	497.7	507.1	507.2	542.5	604.1	664.4	726.9
Interest payments	42.5	47.9	52.1	66.1	64.3	64.3	72.5	87.4	92.6	101.3
Domestic interest	36.9	42.2	45.9	58.0	58.0	58.0	66.7	78.5	81.7	88.3
Foreign interest due	5.7	5.7	6.1	8.2	6.3	6.3	5.9	9.0	10.9	12.9
Wages and benefits (civil service)	127.3	146.0	155.2	173.6	173.5	173.6	190.0	208.7	227.4	251.3
Civil service reform	1.4	0.8	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Pensions, etc.	20.4	24.1	27.2	30.0	25.6	25.6	28.2	31.0	34.1	37.2
Other	119.0	139.7	154.9	178.2	189.6	189.6	192.2	211.4	237.4	256.2
Defense and NSIS [3]	28.7	44.9	46.1	49.6	54.0	54.0	59.5	65.5	72.7	80.8
Pending bills	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development and net lending	80.3	131.5	160.9	240.7	261.3	236.6	269.6	280.2	321.0	368.9
Domestically financed	53.5	86.3	112.0	150.3	155.1	153.6	166.9	162.9	179.8	202.5
Foreign financed	26.1	42.9	46.6	87.8	103.8	80.4	100.3	114.9	138.8	164.1
Of which: financed by sovereign bonds		0.0	0.0	0.0	0.0	0.0	14.4	16.0	16.0	16.0
Net lending	1.4	2.3	2.4	2.6	2.4	2.6	2.4	2.4	2.4	2.4
Pending bills	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drought Development Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Civil Contingency Fund	0.0	0.0	0.0	2.3	2.0	2.0	2.5	2.8	2.8	2.8
Drought expenditures	0.0	0.0	0.0	1.0	2.0	3.1	3.4	3.8	4.3	4.8
Balance (commitment basis, excluding grants)	**-46.5**	**-102.7**	**-108.6**	**-176.7**	**-202.9**	**-182.2**	**-183.2**	**-170.5**	**-174.6**	**-177.7**
Balance (commitment basis, including grants)	**-31.0**	**-76.8**	**-88.4**	**-141.1**	**-167.6**	**-152.1**	**-150.5**	**-133.1**	**-119.0**	**-118.2**
Adjustments to cash basis	**1.6**	**9.3**	**12.8**	**0.0**	**-0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Balance (cash basis, including grants)	**-29.4**	**-67.5**	**-82.8**	**-141.1**	**-168.2**	**-152.1**	**-150.5**	**-133.1**	**-119.0**	**-118.2**
Financing	**35.5**	**59.9**	**82.8**	**141.1**	**168.2**	**152.1**	**150.5**	**133.1**	**119.0**	**118.2**
Net foreign financing	-3.1	6.3	10.9	26.1	50.2	31.5	53.8	60.8	72.8	87.8
Project loans	10.6	21.2	26.5	52.2	68.5	50.3	53.2	61.5	67.2	88.6
Program loans	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial borrowing [4]	0.0	0.0	0.0	0.0	0.0	0.0	14.4	16.0	16.0	16.0
Repayments due	-16.7	-16.5	-17.5	-20.9	-18.7	-18.7	-13.8	-16.7	-10.4	-16.7
Change in arrears	0.7	0.3	1.5	-5.2	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling / debt swap	2.2	0.0	0.5	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Net domestic financing	38.7	53.6	71.9	115.0	118.0	123.1	96.6	72.2	46.2	30.4
Privatization proceeds and other [5]	4.0	76.3	0.0	6.0	6.0	6.0	7.5	7.7	2.0	0.0
Bank restructuring costs [6]	-20.0	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization costs	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring costs (cash) [7]	…	-8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank restructuring financing [6]	20.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring financing	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom/KPRL refinancing		…	2.5 .	…	2.5	2.5	…	…	…	…
Net domestic borrowing [8]	34.7	-13.9	69.4	109.0	109.5	114.6	89.1	64.5	44.2	30.4
Financing gap (stat. discrepancy for outturns)	-6.2	7.6	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP	1,724.2	1,962.9	2,254.6	2,604.6	2,546.6	2,535.7	2,793.1	3,103.4	3,474.8	3,896.7
Primary budget balance	13.2	-19.5	-23.6	-75.0	-103.9	-87.8	-78.0	-45.7	-26.4	-17.0
NPV of total public debt, net	613.7	564.7	652.7	840.5	…	813.5	933.4	1,033.9	1,127.9	1,214.5
Total public debt, net of deposits	723.4	729.8	906.7	1,103.2	…	1,086.8	1,218.7	1,342.5	1,459.9	1,577.9

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

1 Fiscal year runs from July to June.
2 Includes debt relief from a debt swap deal with Italy.
3 Includes a one-time allocation for payment of security-related arrears of Ksh 2 billion in 2007/08 budget.
4 Includes planned sovereign bonds.
5 In 2008/09, this includes repayment from parastatals of expenditures that are pre-financed during 2008/09 by the central government budget.
6 Operation consists of recapitalization of National Bank of Kenya and financing this through issuance of a special purpose bond.
7 Operation consists of recapitalization of Kenya Telkom on account of its pension obligations and restructuring operation and financing this through cash injection.
8 Including infrastructure bond.

Table 2b. Kenya: Central Government Financial Operations, 2006/07–2013/14[1]

	2006/07	2007/08	2008/09	2009/10			2010/11	2011/12	2012/13	2013/14
	Actual	Estimate	Estimate	ESF SR	Budget BSP 09/10	Staff Projection	Projections			
	(In percent of GDP, unless otherwise indicated)									
Revenue and Grants	**22.5**	**23.3**	**22.5**	**23.1**	**23.7**	**23.5**	**23.9**	**24.4**	**25.1**	**25.3**
Revenue	**21.6**	**22.0**	**21.6**	**21.7**	**22.4**	**22.3**	**22.7**	**23.2**	**23.5**	**23.8**
Tax revenue	18.1	19.0	18.9	18.3	19.1	19.1	19.5	19.9	20.3	20.5
Income tax	7.6	8.4	8.6	8.4	8.6	8.7	8.7	8.8	8.8	8.9
Import duty (net)	1.6	1.7	1.6	1.6	1.6	1.5	1.6	1.8	2.0	2.1
Excise duty	3.3	3.2	3.1	2.9	3.1	3.1	3.0	3.1	3.1	3.1
Value-added tax	5.6	5.7	5.6	5.4	5.8	5.9	6.1	6.3	6.4	6.4
Nontax revenue	3.6	3.1	2.7	3.4	3.2	3.2	3.2	3.3	3.3	3.3
Investment income	0.4	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other	1.6	1.5	1.4	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Ministerial and Departmental Fees (AIA)	1.5	1.4	1.0	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Grants	**0.9**	**1.3**	**0.9**	**1.4**	**1.4**	**1.2**	**1.2**	**1.2**	**1.6**	**1.5**
Food/debt relief grants[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.9	1.1	0.9	1.4	1.4	1.2	1.2	1.2	1.6	1.5
Program grants	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**24.3**	**27.3**	**26.5**	**28.5**	**30.3**	**29.5**	**29.3**	**28.7**	**28.6**	**28.3**
Recurrent expenditure	**19.7**	**20.6**	**19.3**	**19.1**	**19.9**	**20.0**	**19.4**	**19.5**	**19.1**	**18.7**
Interest payments	2.5	2.4	2.3	2.5	2.5	2.5	2.6	2.8	2.7	2.6
Domestic interest	2.1	2.1	2.0	2.2	2.3	2.3	2.4	2.5	2.4	2.3
Foreign interest due	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3
Wages and benefits (civil service)	7.4	7.4	6.9	6.7	6.8	6.8	6.8	6.7	6.5	6.5
Civil service reform	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions, etc.	1.2	1.2	1.2	1.2	1.0	1.0	1.0	1.0	1.0	1.0
Other	6.9	7.1	6.9	6.8	7.4	7.5	6.9	6.8	6.8	6.6
Defense and NSIS[3]	1.7	2.3	2.0	1.9	2.1	2.1	2.1	2.1	2.1	2.1
Pending bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development and net lending	**4.7**	**6.7**	**7.1**	**9.2**	**10.3**	**9.3**	**9.7**	**9.0**	**9.2**	**9.5**
Domestically financed	3.1	4.4	5.0	5.8	6.1	6.1	6.0	5.2	5.2	5.2
Foreign financed	1.5	2.2	2.1	3.4	4.1	3.2	3.6	3.7	4.0	4.2
Of which: financed by sovereign bonds		0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.4
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Pending bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drought Development Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Civil Contingency Fund	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Drought expenditures	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Balance (commitment basis, excluding grants)	**-2.7**	**-5.2**	**-4.8**	**-6.8**	**-8.0**	**-7.2**	**-6.6**	**-5.5**	**-5.0**	**-4.6**
Balance (commitment basis, including grants)	**-1.8**	**-3.9**	**-3.9**	**-5.4**	**-6.6**	**-6.0**	**-5.4**	**-4.3**	**-3.4**	**-3.0**
Adjustments to cash basis	**0.1**	**0.5**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Balance (cash basis, including grants)	**-1.7**	**-3.4**	**-3.7**	**-5.4**	**-6.6**	**-6.0**	**-5.4**	**-4.3**	**-3.4**	**-3.0**
Financing	**2.1**	**3.1**	**3.7**	**5.4**	**6.6**	**6.0**	**5.4**	**4.3**	**3.4**	**3.0**
Net foreign financing	-0.2	0.3	0.5	1.0	2.0	1.2	1.9	2.0	2.1	2.3
Project loans	0.6	1.1	1.2	2.0	2.7	2.0	1.9	2.0	1.9	2.3
Program loans	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial borrowing[4]	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.4
Repayments due	-1.0	-0.8	-0.8	-0.8	-0.7	-0.7	-0.5	-0.5	-0.3	-0.4
Change in arrears	0.0	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling / debt swap	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing		2.7	3.2	4.4	4.5	4.9	3.5	2.3	1.3	0.8
Privatization proceeds and other[5]	0.2	3.9	0.0	0.2	0.2	0.2	0.3	0.2	0.1	0.0
Bank restructuring costs[6]	-1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring costs (cash)[7]	…	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank restructuring financing[6]	1.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom/KPRL refinancing		…	0.1	…	…	0.1	…	…	…	…
Net domestic borrowing[8]	2.0	-0.7	3.1	4.2	4.3	4.5	3.2	2.1	1.3	0.8
Financing gap (stat. discrepancy for outturns)	-0.4	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (billion of Ksh)	1,724.2	1,962.9	2,254.6	2,604.6	2,546.6	2,535.7	2,793.1	3,103.4	3,474.8	3,896.7
Primary budget balance	0.8	-1.0	-1.0	-2.9	-4.1	-3.5	-2.8	-1.5	-0.8	-0.4
Total public debt, net of deposits	42.0	37.2	40.2	42.4	…	42.9	43.6	43.3	42.0	40.5

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

[1] Fiscal year runs from July to June.
[2] Includes debt relief from a debt swap deal with Italy.
[3] Includes a one-time allocation for payment of security-related arrears of Ksh 2 billion in 2007/08 budget.
[4] Includes planned sovereign bonds.
[5] In 2008/09, this includes repayment from parastatals of expenditures that are pre-financed during 2008/09 by the central government budget.
[6] Operation consists of recapitalization of National Bank of Kenya and financing this through issuance of a special purpose bond.
[7] Operation consists of recapitalization of Kenya Telkom on account of its pension obligations and restructuring operation and financing this through cash injection.
[8] Including infrastructure bond.

Table 3. Kenya: Monetary Survey, 2006–10

	Jun-06	Jun-07	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
									Projections		
					(Billions of Kenyan shillings)						
Central Bank of Kenya (CBK)											
Net Foreign assets	**158.2**	**163.7**	**202.6**	**208.7**	**199.1**	**193.4**	**208.8**	**210.2**	**245.9**	**262.6**	**267.1**
In millions of US$	2148.7	2461.1	3145.2	2855.2	2566.1	2424.4	2715.6	2693.2	3198.0	3302.7	3424.5
Net domestic assets	**-50.3**	**-34.3**	**-49.6**	**-56.1**	**-35.5**	**-37.9**	**-48.8**	**-46.7**	**-59.8**	**-85.1**	**-86.8**
Net domestic credit	-37.0	-16.8	-20.7	-12.7	-1.5	-6.2	-6.1	-14.5	-23.2	-44.3	-45.3
Government (net)	-15.8	-3.5	-27.7	-15.1	0.0	0.9	-23.5	-18.1	-18.1	-18.1	-20.0
Commercial banks (net)	-23.4	-15.7	4.5	0.0	-4.0	-9.7	15.0	1.0	-6.1	-28.8	-27.9
Other items (net)	-13.2	-17.5	-28.9	-43.4	-34.0	-31.6	-42.8	-32.2	-36.6	-40.8	-41.5
Reserve Money	**108.0**	**129.4**	**152.9**	**152.6**	**163.6**	**155.5**	**159.9**	**163.5**	**186.1**	**177.4**	**180.3**
Currency outside banks	67.2	78.1	83.6	85.4	93.7	88.0	87.3	87.6	108.0	103.8	105.8
Banks reserves	40.8	51.2	69.3	67.2	69.9	67.5	72.6	75.9	78.1	73.7	74.5
Other Depository Corporation Survey											
Net foreign assets	**32.0**	**59.1**	**88.7**	**53.9**	**59.9**	**72.9**	**68.5**	**54.9**	**81.8**	**84.2**	**85.9**
In millions of US$	434.6	888.5	1377.8	736.8	771.3	913.9	890.7	703.7	1063.9	1059.3	1100.8
Reserves	40.8	51.2	69.3	67.2	69.9	67.5	72.6	75.9	78.1	73.7	74.5
Credit to CBK	23.4	15.7	-4.5	0.0	4.0	9.7	-15.0	-1.0	6.1	28.8	27.9
Net domestic assets	**441.9**	**504.3**	**603.6**	**644.2**	**664.2**	**659.7**	**721.5**	**754.2**	**748.7**	**762.2**	**779.3**
Domestic credit	535.1	601.5	727.0	788.7	806.0	826.1	881.6	872.2	953.2	972.7	993.9
Government (net)	133.7	160.6	161.1	165.1	155.3	167.2	202.9	191.5	194.4	197.2	200.1
Other public sector	12.2	12.5	10.1	12.2	11.8	7.4	7.4	7.4	10.6	7.6	7.6
Private sector	389.3	428.4	555.8	611.4	638.9	651.5	671.4	673.3	748.3	767.8	786.1
Other Items (Net)	-93.3	-97.2	-123.4	-144.5	-141.8	-166.4	-160.1	-118.0	-204.5	-210.5	-214.6
Total deposits	**538.0**	**630.2**	**757.1**	**765.3**	**797.9**	**809.7**	**847.6**	**884.0**	**914.7**	**948.9**	**967.5**
Depository Corporation Survey											
Net Foreign assets	**190.2**	**222.7**	**291.3**	**262.6**	**259.0**	**266.3**	**277.3**	**265.1**	**327.7**	**346.8**	**353.0**
In millions of US$	2583.3	3349.6	4522.9	3592.0	3337.4	3338.3	3606.3	3396.9	4261.9	4362.0	4525.4
Net domestic assets	**415.0**	**485.6**	**549.4**	**596.8**	**642.1**	**639.8**	**657.7**	**706.5**	**694.9**	**705.9**	**720.3**
Domestic credit	521.5	600.3	701.8	776.0	808.5	829.5	860.6	856.6	936.1	957.2	976.4
Government (Net)	117.9	157.2	133.4	149.9	155.3	168.1	179.4	173.4	176.2	179.2	180.1
Other Public Sector	12.2	12.5	10.1	12.2	11.8	7.4	7.4	7.4	10.6	7.6	7.6
Private Sector*	391.4	430.7	558.3	613.9	641.4	654.0	673.8	675.9	749.2	770.4	788.7
Other Items (Net) *	-106.5	-114.7	-152.4	-179.3	-166.4	-189.7	-202.9	-150.1	-241.1	-251.3	-256.1
Money and Quasi-money (M3)	522.0	605.5	716.0	736.3	766.4	780.6	796.8	833.9	868.7	898.0	917.9
M3 plus Residents' Foreign Curr. Deposits (M3X)	605.2	708.4	840.7	859.3	901.1	906.1	935.0	971.6	1022.7	1052.7	1073.3
M3X plus Nonbank Holdings of Govt. Debt (M4X)	765.6	884.4	1028.6	1051.2	1091.9	1101.7	1101.8	1144.4	1221.3	1277.0	1325.4
Memorandum items:											
						(Annual percent change)					
M3 plus Residents' Foreign Curr. Deposits (M3X)	15.6	17.0	18.7	17.2	15.9	11.7	11.2	13.1	13.5	16.2	14.8
M3X plus Nonbank Holdings of Govt. Debt (M4X)	15.8	15.5	16.3	14.5	12.4	9.5	7.1	8.9	11.8	15.9	20.3
Reserve Money	14.2	19.8	18.2	14.5	4.2	1.6	4.6	7.1	13.8	14.1	12.8
Currency Outside Banks	13.3	16.2	7.0	6.7	-2.3	3.6	4.5	2.5	15.2	17.9	21.1
NFA	22.9	17.1	30.8	16.4	1.4	6.7	-4.8	1.0	26.5	30.2	27.3
NDA of the banking sector	12.5	17.0	13.1	17.5	22.9	13.9	19.7	18.4	8.2	10.3	9.5
Domestic credit	12.3	15.1	16.9	22.9	23.2	19.8	22.6	10.4	15.8	15.4	13.5
Government (net)	5.0	33.3	-15.1	-6.5	13.0	4.7	34.4	15.6	13.5	6.6	0.4
Credit to private sector	14.5	10.0	29.6	33.9	27.2	26.7	20.7	10.1	16.8	17.8	17.0
Other Items Net	11.4	7.7	32.8	45.0	24.3	45.3	33.1	-16.2	44.9	32.5	26.2
Money multiplier (M3X/RM)	5.6	5.5	5.5	5.6	5.5	5.8	5.8	5.9	5.5	5.9	6.0
Money Velocity (GDP/M3X)	2.5	2.4	2.36	2.41	2.41	2.41	2.41	2.36	2.36	2.36	2.36

Table 4a. Kenya: Balance of Payments, 2006/07–2013/14

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

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Est.	Prel.	Projections					
Current account	-850.4	-1,288.5	-2,302.0	-2,283.4	-1,953.1	-2,213.7	-2,120.4	-1,865.6
Excluding official transfers	-850.4	-1,343.3	-2,282.7	-2,255.1	-1,933.8	-2,194.4	-2,101.1	-1,846.3
Exports, f.o.b.	3,834.8	4,543.9	4,657.2	4,555.1	5,051.9	5,685.9	6,523.9	7,560.1
Coffee	142.5	169.3	179.4	176.4	181.6	193.4	217.7	248.6
Tea	726.8	754.8	876.9	685.5	743.3	784.1	843.7	955.7
Horticulture	552.0	739.3	668.2	615.7	776.9	931.3	1,105.9	1,303.0
Imports, f.o.b.	-7,777.9	-9,287.1	-10,314.7	-10,032.5	-10,485.2	-11,651.9	-13,039.5	-14,434.4
Oil	-1,755.1	-2,448.0	-2,555.7	-2,646.7	-2,641.5	-2,944.0	-3,199.6	-3,481.4
Other Private	-5,902.7	-6,814.0	-7,640.5	-7,115.6	-7,723.4	-8,582.4	-9,708.7	-10,816.0
of which: Special: Maize & sugar	-132.3	-100.0	-441.5	-154.4	-237.3	-192.0	-199.0	-206.1
Balance on goods	-3,943.1	-4,743.2	-5,657.5	-5,477.4	-5,433.3	-5,966.0	-6,515.6	-6,874.3
Services (net)	1,567.4	1,589.7	1,547.0	1,188.1	1,272.5	1,441.0	1,651.2	1,898.0
Credit	2,611.6	3,071.9	3,147.6	2,861.8	3,043.5	3,346.9	3,724.1	4,147.6
of which: foreign travel credit 1/	731.6	720.5	663.2	708.4	736.9	823.8	939.4	1,066.2
Debit	-1,044.2	-1,482.2	-1,600.6	-1,673.7	-1,771.0	-1,905.9	-2,072.9	-2,249.6
Balance on goods and services	-2,375.6	-3,153.5	-4,110.4	-4,289.3	-4,160.8	-4,525.1	-4,864.4	-4,976.3
Income (net)	-84.2	-20.8	-49.7	-45.0	-62.0	-44.0	-4.6	19.9
Credit	86.2	174.1	136.2	138.6	144.7	215.7	283.6	314.9
Debit	-170.4	-194.9	-186.0	-183.6	-206.7	-259.7	-288.2	-295.0
of which : official interest payments	-97.0	-85.9	-83.6	-85.8	-85.8	-85.9	-85.9	-85.9
Other	-73.4	-109.0	-102.4	-70.6	-120.9	-173.9	-202.2	-209.1
Current transfers (net)	1,609.5	1,885.8	1,858.2	2,050.9	2,269.6	2,355.4	2,748.5	3,090.9
Private (net)	1,609.5	1,831.0	1,877.5	2,079.3	2,288.9	2,374.7	2,767.8	3,110.2
of which: remittances	816.1	952.8	933.8	917.9	966.5	1,070.3	1,245.6	1,399.1
Official (net)	0.0	54.8	-19.3	-28.3	-19.3	-19.3	-19.3	-19.3
Capital and financial account	1,051.6	2,183.8	1,879.3	3,135.1	2,485.6	2,770.4	2,745.0	2,631.7
Capital account (incl. capital transfers)	216.9	293.3	193.2	415.4	430.0	498.7	741.9	793.3
Financial account 2/	834.7	1,890.5	1,686.1	2,719.8	2,055.6	2,271.7	2,003.1	1,838.4
Net FDI	622.7	891.7	652.5	451.1	518.2	627.4	685.8	749.3
In Kenya	682.5	994.4	671.9	475.1	542.2	651.4	709.8	773.3
Abroad	-59.8	-102.7	-19.5	-24.0	-24.0	-24.0	-24.0	-24.0
Net Portfolio investment	-22.6	-36.5	-10.3	-2.2	3.4	7.4	8.5	9.6
Liabilities	1.2	6.1	8.9	10.4	12.9	16.6	17.8	19.2
Assets	-23.9	-42.6	-19.2	-12.7	-9.5	-9.2	-9.4	-9.6
Net other investment	234.6	1,035.3	1,044.0	2,270.9	1,534.0	1,636.8	1,308.8	1,079.5
Official, medium and long term	-52.2	295.8	40.3	833.1	638.5	698.3	638.0	835.4
Inflows	207.6	568.2	293.8	1,106.7	957.1	1,076.4	1,135.4	1,403.3
Program loans	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	114.6	267.7	235.7	702.0	700.9	820.2	896.0	1,180.8
Commercial loans	20.9	197.0	0.0	0.0	200.0	200.0	200.0	200.0
Government guaranteed/parastatal	72.2	83.5	58.1	56.3	56.3	56.3	39.4	22.5
Monetary Authorities' long-term liabilities (SDR allocations)	0.0	0.0	0.0	348.5	0.0	0.0	0.0	0.0
Outflows	-259.9	-272.4	-253.6	-273.5	-318.6	-378.2	-497.4	-567.9
Private, medium and long term	-38.0	18.3	-29.4	-40.8	-54.8	40.9	235.8	169.5
Energy financing	19.3	48.7	73.8	69.4	60.0	60.0	60.0	42.1
Kenya Airways	-3.1	-13.1	-77.7	-73.6	-69.6	30.5	226.4	181.1
Other	-54.1	-17.2	-25.5	-36.6	-45.2	-49.6	-50.5	-53.8
Short-term capital and errors and omissions 2/	324.9	721.1	1,033.1	1,478.5	950.3	897.7	435.0	74.6
of which: commercial banks	-453.9	-485.1	486.1	-213.4	-195.6	-206.1	-228.4	-220.7
Overall balance	201.2	895.3	-422.7	851.7	532.5	556.7	624.6	766.2
Financing items	-201.2	-895.3	422.7	-851.7	-532.5	-556.7	-624.6	-766.2
Reserve assets (gross)	-370.2	-719.8	224.0	-830.0	-508.2	-522.3	-582.1	-710.6
Use of Fund credit and loans to the Fund (net)	45.5	47.6	192.9	-21.8	-24.3	-34.4	-42.4	-55.6
Disbursements	57.4	57.4	207.1	0.0	0.0	0.0	0.0	0.0
Repayments	-11.9	-9.8	-14.3	-21.8	-24.3	-34.4	-42.4	-55.6
Change in arrears 3/	69.9	-223.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling /debt swap	53.6	0.0	5.8	0.0	0.0	0.0	0.0	0.0
Remaining gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross official reserves (end of period)	2,723.2	3,443.0	3,219.0	4,049.0	4,557.2	5,079.5	5,661.6	6,372.2
(in months of following year's imports of goods and services)	3.0	3.5	3.3	4.0	4.0	4.0	4.1	4.2
Current account balance (excl. official transfers, percent of GDP)	-3.5	-4.5	-7.8	-7.0	-5.3	-5.3	-4.5	-3.6
Current account balance (including official transfers, percent of GDP)	-3.5	-4.3	-7.8	-7.1	-5.3	-5.3	-4.6	-3.6
Change in reserves due to valuation ("-" represents loss)	104.2	80.8	...	...	...	...	...	
Import volume growth, goods and services (percent)	9.3	6.4	7.8	5.1	2.1	7.1	8.5	7.4
Import value growth, goods and services (percent)	22.3	23.4	3.9	-3.3	8.5	10.6	11.5	10.3
Export volume growth, goods and services (percent)	5.4	10.7	4.0	2.9	7.5	8.3	9.4	10.3
Export value growth, goods and services (percent)	9.7	19.9	1.8	-3.0	11.5	12.5	14.7	15.8
Change in the terms of trade (goods and services, percent)	-2.3	-9.2	-0.3	2.8	-4.3	-0.3	0.9	0.7
Public and publicly guaranteed external debt (percent of GDP)	22.7	20.3	22.4	22.5	22.0	21.7	21.5	21.4

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

1/ The foreign travel credit is comprised of two components, recorded tourism inflows and an estimate of additional under-reported tourism receipts.

2/ Historical figures include errors and omissions.

3/ Starting in 2008/09, change in arrears reflects the amounts in the budget. For earlier years, there are differences with the fiscal sector tables (Tables 2a and 2b) because the government's budget presentation does not show changes to arrears associated with disputed security-related contracts.

Table 4b. Kenya: Balance of Payments, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Est.			Projections			
Current account	-566.2	-1,112.2	-2,026.9	-2,085.4	-1,952.0	-2,272.0	-2,181.2	-2,093.8	-1,662.9
Excluding official transfers	-628.7	-1,167.0	-2,007.6	-2,066.1	-1,932.7	-2,252.7	-2,161.9	-2,074.5	-1,643.6
Exports, f.o.b.	3,516.0	4,123.0	5,046.9	4,296.0	4,762.5	5,338.9	6,029.3	7,013.2	8,094.5
Coffee	138.3	166.4	155.2	185.4	178.0	184.0	199.7	230.0	261.3
Tea	654.9	692.6	923.8	686.8	721.8	761.5	803.4	877.9	1,021.6
Horticulture	508.2	607.5	763.3	593.5	705.2	845.3	1,013.3	1,194.1	1,406.7
Imports, f.o.b.	-6,926.6	-8,550.2	-10,690.0	-9,642.5	-9,956.5	-11,032.1	-12,295.8	-13,816.9	-15,074.0
Oil	-1,745.3	-1,919.5	-3,051.2	-2,329.5	-2,484.5	-2,795.9	-3,089.6	-3,307.8	-3,652.1
Other Private	-5,032.4	-6,594.7	-7,552.4	-7,044.8	-7,354.2	-8,113.2	-9,077.7	-10,374.8	-11,281.8
of which: Special: Maize & sugar	-96.3	-137.4	-101.1	-338.9	-274.3	-188.9	-196.0	-202.9	-210.4
Balance on goods	-3,410.5	-4,427.1	-5,643.1	-5,346.5	-5,194.0	-5,693.2	-6,266.5	-6,803.6	-6,979.4
Services (net)	1,318.9	1,702.9	1,723.7	1,218.0	1,208.9	1,343.6	1,549.4	1,766.2	2,044.7
Credit	2,308.6	2,940.6	3,334.9	2,822.0	2,919.2	3,177.7	3,529.7	3,934.1	4,378.1
of which: foreign travel credit 1/	628.6	831.4	752.2	611.5	703.2	773.5	878.3	1,005.8	1,131.7
Debit	-989.7	-1,237.8	-1,611.2	-1,604.0	-1,710.3	-1,834.0	-1,980.3	-2,168.0	-2,333.4
Balance on goods and services	-2,091.7	-2,724.3	-3,919.4	-4,128.5	-3,985.1	-4,349.6	-4,717.1	-5,037.5	-4,934.7
Income (net)	-59.3	-106.9	8.8	-46.1	-52.0	-75.1	-14.1	4.7	35.3
Credit	84.1	108.8	191.3	130.2	126.0	164.0	268.9	298.7	331.5
Debit	-143.4	-215.7	-182.5	-176.4	-178.0	-239.1	-283.0	-294.0	-296.2
of which : official interest payments	-108.2	-85.8	-85.9	-83.5	-85.8	-85.8	-85.9	-85.9	-85.9
Other	-44.7	-129.9	-96.6	-65.7	-92.2	-153.3	-197.1	-208.1	-210.3
Current transfers (net)	1,584.8	1,719.0	1,883.8	2,089.2	2,085.1	2,152.7	2,550.0	2,939.0	3,236.5
Private (net)	1,522.3	1,664.2	1,903.1	2,108.5	2,104.4	2,172.0	2,569.3	2,958.3	3,255.8
of which: remittances	709.6	922.5	983.0	884.7	951.0	982.0	1,158.7	1,332.5	1,465.8
Official (net)	62.5	54.8	-19.3	-19.3	-19.3	-19.3	-19.3	-19.3	-19.3
Capital and financial account	920.6	1,949.6	1,753.7	2,832.2	2,456.7	2,834.1	2,729.0	2,802.5	2,488.9
Capital account (incl. capital transfers)	209.2	209.7	292.9	325.4	389.3	471.5	588.8	765.3	822.3
Financial account 2/	711.4	1,739.9	1,460.8	2,506.9	2,067.4	2,362.6	2,140.2	2,037.3	1,666.6
Net FDI	505.5	974.0	656.7	453.8	450.1	600.0	656.0	716.9	783.2
In Kenya	543.0	1,074.8	701.1	477.8	474.1	624.0	680.0	740.9	807.2
Abroad	-37.5	-100.8	-44.3	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0
Net Portfolio investment	-20.6	-23.8	-27.1	-6.9	0.4	7.1	8.1	9.2	10.4
Liabilities	3.0	0.8	10.5	10.2	10.8	16.1	17.3	18.6	20.0
Assets	-23.6	-24.6	-37.6	-17.2	-10.4	-9.0	-9.2	-9.4	-9.7
Net other investment	226.5	789.7	831.1	2,060.0	1,616.9	1,755.5	1,476.1	1,311.2	873.1
Official, medium and long term	-99.2	14.2	282.0	686.5	576.9	724.7	624.4	761.4	827.0
Inflows	157.0	281.0	544.0	935.5	887.2	1,025.9	1,105.4	1,275.2	1,448.9
Program loans	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	98.6	143.6	287.0	530.8	631.0	769.7	849.1	1,052.7	1,226.4
Commercial loans	20.9	10.4	197.0	0.0	200.0	200.0	200.0	200.0	200.0
Government guaranteed/parastatal	37.5	106.9	60.0	56.3	56.3	56.3	56.3	22.5	22.5
Monetary Authorities' long-term liabilities (SDR allocations)	0.0	0.0	0.0	348.5	0.0	0.0	0.0	0.0	0.0
Outflows	-256.1	-266.8	-262.0	-249.0	-310.3	-301.2	-481.0	-513.8	-622.0
Private, medium and long term	-141.6	78.7	-35.0	-27.7	-53.3	-55.8	137.8	333.8	-1.6
Energy financing	10.0	28.5	68.8	78.8	60.0	60.0	60.0	60.0	23.1
Kenya Airways	-59.7	53.4	-79.6	-75.8	-71.5	-67.7	128.6	324.1	32.1
Other	-92.0	-3.2	-24.2	-30.7	-41.8	-48.2	-50.8	-50.3	-56.8
Short-term capital and errors and omissions 2/	467.3	696.8	584.1	1,401.2	1,093.3	1,086.6	714.0	216.0	47.7
of which: commercial banks	-164.4	-9.9	29.5	-288.9	-149.1	-220.7	-217.2	-248.6	-134.9
Overall balance	354.4	837.5	-273.2	746.8	504.6	562.1	547.8	708.8	826.0
Financing items	-354.4	-837.5	273.2	-746.8	-504.6	-562.1	-547.8	-708.8	-826.0
Reserve assets (gross)	-595.3	-939.6	480.2	-941.9	-479.0	-539.1	-501.9	-669.8	-753.9
Use of Fund credit and loans to the Fund (net)	-13.6	104.5	-10.0	189.3	-25.6	-22.9	-45.9	-39.0	-72.2
Disbursements	0.0	114.8	0.0	207.1	0.0	0.0	0.0	0.0	0.0
Repayments	-13.6	-10.3	-10.0	-17.9	-25.6	-22.9	-45.9	-39.0	-72.2
Change in arrears 3/	147.2	-2.4	-197.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling /debt swap	107.2	0.0	0.0	5.8	0.0	0.0	0.0	0.0	0.0
Remaining gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross official reserves (end of period)	2,415.3	3,354.9	2,874.7	3,816.6	4,295.6	4,834.7	5,336.6	6,006.4	6,760.2
In months of following year's imports	3.0	3.3	3.1	3.9	4.0	4.1	4.0	4.1	4.3
Change in reserves due to valuation ("-" represents loss) 4/	6.1	40.4	-337.3	…	…	…	…	…	…
Current account balance									
(Percent of GDP, excluding official transfers)	-2.8	-4.3	-6.7	-6.7	-5.6	-5.8	-4.9	-4.2	-3.0
(Percent of GDP, including official transfers)	-2.5	-4.1	-6.7	-6.8	-5.7	-5.9	-5.0	-4.3	-3.0
Import volume growth, goods and services (percent)	7.9	10.7	2.6	12.9	-1.8	6.0	8.1	8.9	5.9
Export volume growth, goods and services (percent)	-1.3	12.3	9.4	-1.0	6.9	8.0	8.6	10.2	10.5

Sources: Kenyan authorities; and staff estimates and projections.

1/ The foreign travel credit is comprised of two components, recorded tourism inflows and an estimate of additional under-reported tourism receipts.

2/ Historical figures include errors and omissions.

3/ Starting in 2008/09, change in arrears reflects the amounts in the budget. For earlier years, there are differences with the fiscal sector tables (Tables 2a and 2b) because the government's budget presentation does not show changes to arrears associated with disputed security-related contracts.

4/ Preliminary figures.

Table 5. Indicators of External Vulnerability 2005 - 2009
(In percent of GDP, unless otherwise indicated)

	2005	2006	2007	2008	2009	*Date*
Financial indicators						
Public sector debt 1/	48.2	45.0	42.0	37.2	40.2	
Broad money (M2; percent change, 12-month basis)	8.6	18.0	16.0	18.2	13.4	
Deposit liability of the banking system	35.3	35.9	38.4	38.4	38.0	
Private sector credit (percent change, 12-month basis)	10.4	13.9	24.6	23.3	16.8	
Ratio of domestic credit to GDP	37.1	37.6	39.0	40.9	41.5	
91 -day Treasury-bill rate 2	6.3	7.9	6.3	7.2	7.2	*November*
182-day Treasury-bill rate 2	7.0	8.4	7.7	8.1	8.1	*November*
External indicators						
Exports, goods and services (percent change, 12-month basis in U.S. dollars)	23.3	9.2	21.3	18.7	-15.1	
Imports, goods and services (percent change, 12-month basis in U.S. dollars)	27.4	17.5	23.6	25.7	-8.6	
Terms of trade, goods and services (percent change, 12-month basis)	-8.6	1.0	-5.6	-13.0	14.2	
Current account balance (incl. transfers)	-0.8	-2.5	-4.1	-6.7	-6.8	
Current account balance (excl. transfers)	-0.8	-2.8	-4.3	-6.7	-6.7	
Capital and financial account balance (in millions of U.S. dollars)	187.6	920.6	1,949.6	1,753.7	2,832.2	
Net foreign assets of commercial banks (in millions of U.S. dollars)	625.7	790.1	799.9	771.4	1,063.9	
Gross official reserves (in millions of U.S. dollars)	1,820.0	2,415.3	3,354.9	2,874.7	3,816.6	*October*
Gross official reserves in months of imports of goods and services	2.8	3.0	3.3	3.1	3.9	
Net foreign assets of the banking sector (in millions of U.S. dollars)	2,076.8	2,945.4	3,660.4	3,337.5	4,261.9	*October*
Ratio of gross official reserves to broad money (in percent)	27.7	30.2	31.5	29.1	33.2	
Ratio of gross official reserves to reserve money (in percent)	123.8	134.8	135.0	136.5	157.7	
Total external debt	5,770.3	5,806.3	6,121.9	6,762.1	7,406.1	
Of which : public sector external debt	5,770.3	5,806.3	6,121.9	6,312.1	6,806.1	
Financial market indicators						
Stock market index (e.o.p.)2	3,949.9	5,645.7	5,444.8	3,297.5	3,077.1	*November*
Percent change	34.0	42.9	-3.6	-39.4	-6.7	
Foreign currency debt rating–Standard & Poor's	…	…	B+	B+	B+	
Foreign currency debt rating–Fitch	…	…	B+	B+	B+	
Memorandum items:						
GDP (in millions of U.S. dollars)	18.6	21.9	27.5	25.3	29.3	
Exchange rate Ksh per U.S. dollar, end-of-period)2	72.3	69.3	62.6	75.6	74.5	*20-Nov-09*
Exchange rate Ksh per U.S. dollar; period average)2	75.6	72.0	67.1	69.9	77.8	*20-Nov-09*

1/ National government debt.
2/ For 2009, these indicators reflect latest data. Others are projections.
Sources: Kenyan authorities, and IMF Staff estimates and projections.

Table 6. Banking System Financial Soundness Indicators, 2005-2009

	Dec-05	Dec-06	Dec-07	Dec-08	Mar-09	Jun-09	Jul-09	Aug-09
CAPITAL ADEQUACY								
Regulatory Capital to Risk-Weighted Assets	16.3	17.0	18.0	18.9	20.3	19.8	20.2	19.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	15.4	16.4	16.8	16.9	18.2	17.6	17.8	17.5
Total Capital to Total Assets	12.1	11.4	12.0	12.6	13.6	13.0	13.2	12.9
ASSET QUALITY								
NonPerforming Loans to Total Gross Loans	24.4	20.2	10.6	9.0	8.9	9.0	9.0	9.2
NonPerforming Loans Net of Provisions to Capital	32.5	18.3	12.8	11.3	11.0	12.4	12.5	12.9
Earning Assets to Total Assets	95.1	86.8	79.4	88.6	88.8	88.1	89.3	85.3
EARNINGS & PROFITABILITY								
Return on Assets (ROA)	2.4	2.7	3.0	2.8	3.3	3.1	3.1	3.0
Return on Equity (ROE)	24.8	27.2	27.5	25.2	29.5	28.5	27.1	26.3
Interest Margin to Gross Income	36.6	35.6	34.6	34.9	35.6	35.6	35.7	35.1
Non Interest Expenses to Gross Income	55.7	53.6	50.6	51.7	48.8	49.1	49.6	50.0
LIQUIDITY								
Liquid Assets to Total Assets	37.2	30.5	37.5	36.4	36.4	35.0	36.4	36.4
Liquid Assets to Short-term liabilities(Liquidity ratio)	42.0	44.0	40.0	37.0	37.0	40.6	40.9	40.9
Liquid Assets to Total Deposit	46.6	38.0	47.4	46.4	46.4	45.7	48.0	47.3
Total Loans to Total Deposit	80.2	77.2	71.3	73.3	73.3	75.7	74.4	72.9
SENSITIVITY TO MARKET RISK								
Net Open Position in Foreign Exchange to Capital	…	…	…	5.6	5.6	6.1	5.1	4.1
Interest Bearing Assets to Interest Bearing Liabilities	119.0	108.0	100.5	113.0	113.0	114.4	116.2	117.7
FX Currency Denominated Assets to Total Assets	9.5	15.4	8.7	9.7	9.7	9.9	9.4	9.1
FX Currency Denominated Liabilities to Total Liabilities	16.3	16.1	16.3	20.2	20.2	17.6	17.1	17.4
Spread between lending and deposit rate	6.8	6.9	7.5	7.8	9.4	8.8	8.8	9.8
Total expenses/Gross income	73.8	71.7	68.9	72.0	70.8	70.0	70.3	70.9

Source: Central Bank of Kenya

Table 7, Kenya: Millennium Development Goals, 1990-2008 1/

	1990	1995	2000	2005	2008
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*72*	72	73	73	*73*
Employment to population ratio, ages 15-24, total (%)	*61*	60	61	59	*59*
GDP per person employed (annual % growth)	*-5*	1	-3	3	-1
Income share held by lowest 20%	*3.4*	*5.6*	..	4.7	..
Malnutrition prevalence, weight for age (% of children under 5)	..	*20.1*	17.5	*16.5*	..
Poverty gap at $1.25 a day (PPP) (%)	*15*	*9*	..	6	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	*38*	*29*	..	20	..
Prevalence of undernourishment (% of population)	*33*	*30*	..	32	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	81	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	80	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	..	*84*	..
Primary completion rate, total (% of relevant age group)	..	..	..	93	..
Total enrollment, primary (% net)	..	..	67	76	*87*
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	1	*3*	4	7	9
Ratio of female to male enrollments in tertiary education	..	..	54	61	*57*
Ratio of female to male primary enrollment	97	98	99	96	*99*
Ratio of female to male secondary enrollment	*85*	..	95	95	*88*
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	21.4	26.6	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	78	83	75	69	*80*
Mortality rate, infant (per 1,000 live births)	64	72	77	79	*80*
Mortality rate, under-5 (per 1,000)	97	111	117	120	*121*
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*106*	105	104	*104*
Births attended by skilled health staff (% of total)	*50*	*45*	*44*	*42*	..
Contraceptive prevalence (% of women ages 15-49)	*27*	*33*	*39*	*39*	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	560	..
Pregnant women receiving prenatal care (%)	*77*	*95*	76	*88*	..
Unmet need for contraception (% of married women ages 15-49)	..	*36*	*24*	*25*	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	65	*27*	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	*7*	*9*	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	*39*	*39*	..
Incidence of tuberculosis (per 100,000 people)	112	224	405	406	*353*
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	58	53	70	*72*
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0.2	0.3	0.3	0.2	..
CO2 emissions (metric tons per capita)	0.2	0.3	0.3	0.3	..
Forest area (% of land area)	7	6	6	6	..
Improved sanitation facilities (% of population with access)	39	40	41	*42*	*42*
Improved water source (% of population with access)	41	46	51	*57*	*57*
Marine protected areas, (% of surface area)	..	..	..	*1*	..
Nationally protected areas (% of total land area)	..	..	..	*12.1*	*12.1*
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	50	27	16	22	*34*
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	29	21	17	9	*6*
Internet users (per 100 people)	0.0	0.0	0.3	3.1	8.7
Mobile cellular subscriptions (per 100 people)	0	0	0	13	42
Telephone lines (per 100 people)	1	1	1	1	1
Other					
Fertility rate, total (births per woman)	5.8	5.2	5.0	5.0	*5.0*
GNI per capita, Atlas method (current US$)	360	270	420	520	770
GNI, Atlas method (current US$) (billions)	8.4	7.5	13.2	18.6	29.5
Gross capital formation (% of GDP)	24.2	21.8	17.4	16.9	24.7
Life expectancy at birth, total (years)	59	56	52	53	*54*
Literacy rate, adult total (% of people ages 15 and above)	..	..	74	..	..
Population, total (millions)	23.4	27.4	31.3	35.6	38.5
Trade (% of GDP)	57.0	71.7	53.3	64.4	63.9

Source: World Bank
1/ For definitions of the goals, see http://ddp-ext.worldbank.org/ext/GMIS/gdmis.do?siteId=2&menuId=LNAV01HOME1

Table 8. Kenya: Social and Demographic Indicators

(2009, unless otherwise specified)

Area	
580,367 square kilometers	
Population characteristics	
Population density	65.1 per sq. km.
Urban population (percentage of total, 2008)	22
Proportion in capital city as a percentage of urban population	n.a.
Population age structure (percent)	
0-14 years	42.3
15-64	55.1
65 and above	2.6
Population below $2 a day (percent of population, 2007)	39.9
GDP per capita at current prices	
In U.S. dollars	842

Population	
Total (2007)	37.8 million
Annual rate of growth	2.7 percent
Health	
Life expectancy at birth Total (years, 2007)	53.6
Infant mortality per thousand live births	54.7
Labor force	
Fermale (percentage of labor force, 2005)	44
Percentage of employment (2003)	
Agriculture	75
Industry and services	25
Education	
Adult literacy (15+, percentage)	
Male	90.6
Female	79.7
Total	85.1

Sources: World Bank, *World Development Indicators* ; IMF, *World Economic Outlook;* CIA World Fact Book; UNDP, *Human Development Report*

INTERNATIONAL MONETARY FUND

KENYA

Staff Report for the 2009 Article IV Consultation

Informational Annex

Prepared by the African Department
(In consultation with other departments)

Approved by Saul Lizondo and Dominique Desruelle

December 7, 2009

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VII. Kenya: Relations with the Fund

(As of October 31, 2009)

I. Membership Status: Joined February 3, 1964; Article VIII.

II. General Resources Account:	SDR million	Percent of quota
Quota	271.40	100.00
Fund holdings of currency	258.52	95.25
Reserve position in Fund	12.89	4.75

III. SDR Department:	SDR million	Percent of allocation
Net cumulative allocation	259.65	100.00
Holdings	226.91	87.39

IV. Outstanding Purchases and Loans:	SDR million	Percent of quota
Poverty Reduction and Growth Facility (PRGF) arrangements	154.22	56.82
ESF RAC Loan	135.70	50.00

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	11/21/03	11/20/07	150.00	150.00
PRGF	08/4/00	08/3/03	190.00	33.60
ESAF	04/26/96	04/25/99	149.55	24.93

The last three-year PRGF arrangement was approved on November 21, 2003, in the amount of SDR 175 million. Access was augmented to SDR 225 million at the time of the first review on December 20, 2004, to address the impact of a drought and higher oil prices. In light of a balance of payments improvement and at the request of the authorities, access was reduced to SDR 150 million at the time of the second review. The arrangement expired on

November 20, 2007. In May 2009, the Executive Board approved the disbursement of SDR135.7 under the RAC-ESF to address the impact of exogenous shocks and the balance of payments gap.

VI. Projected Obligations to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	2009	2010	2011	2012	2013
Principal	2.50	16.72	15.00	18.75	30.00
Charges/interest	0.75	1.51	1.42	1.34	1.22
Total	3.25	18.23	16.42	20.09	31.22

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Safeguards Assessments

An update safeguards assessment of the Central Bank of Kenya (CBK) took place in Spring 2009 with respect to the authorities request for a disbursement under the Rapid-Access Component of the Exogenous Shocks Facility (ESF). The update assessment found increased safeguards risk at the CBK since the 2005 assessment. The report noted that deficiencies found in recent external audits and non-compliance with the benchmark financial reporting framework confirmed that audit oversight is not yet fully effective, and that it has impaired external audit and financial reporting. Steps are being taken by the CBK and the external auditor to strengthen the ongoing 2009 external audit process.

X. Exchange Arrangements

Kenya's currency is the shilling, which floats against other currencies. The official exchange rate, which is set at the previous day’s average market rate, applies only to government and government-guaranteed external debt-service payments and to government imports for which there is a specific budget allocation. The exchange rate regime is a managed float, in which the U.S. dollar is the principal intervention currency. Kenya has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions, other than restrictions notified to the Fund under Decision No. 144 (52/51). On November 20, 2009, the exchange rate was K Sh 74.5 =US$1.00.

XI. Article IV Consultations

Upon expiration of the PRGF program in November 2007, Kenya has now reverted back to a standard 12-month cycle for Article IV consultations. The last Article IV consultation was concluded on September 10, 2008 (EBS/08/339).

XII. FSAP Participation

A joint IMF-World Bank Financial Sector Assessment Program (FSAP) Update mission took place in Nairobi in September 2009. The staff report on the Financial Sector Stability Assessment (FSSA) is issued to the Executive Board concurrently with the 2009 Article IV Consultation Staff Report.

XIII. Technical Assistance

Department	Purpose	Time of Delivery
STA	ROSC Mission	January 2005
MFD	Monetary Framework, Monetary Operations, and Banking Supervision	October 2005
FAD	Revenue Administration	November 2005
FAD	AFRITAC East Semi-Autonomous Agencies and EBFs/Fiscal Reporting Mission	March 2006
FAD	HQ Mission: Strengthening the Budget and Reporting System	August 2006
FAD	AFRITAC East TA: Revision of Public Finance Management Act	October/November 2006
MCM	AFRITAC East TA: Review of Risk-Based Supervision Manual	November/December 2006
MCM	Monetary Operations TA	January 2007
STA	External Debt Statistics Workshop	February / March 2007
FAD	AFRITAC East TA: Customs Administration	July 2007
FAD	Fiscal ROSC	July 2007
MCM	Payment Systems	February 2008
STA	Consumer Price Statistics	March 2008
MCM	Monetary Operations/Banking	April 2008
STA	National Accounts	April 2008
FAD	AFRITAC East TA: Budget	May 2008
STA/MCM	Financial Soundness Indicators	June 2008
FAD	Budgeting	July 2008
MCM	Bond-Pricing Techniques Workshop	July 2008
FAD	AFRITAC East TA: Regional PFM Advisor: Budget and Tax review	August 2008
FAD	AFRITAC East TA: Customs Administration	

MCM	Payment Systems	August 2008
STA	AFRITAC East TA: Monetary and Financial Statistics	August 2008
FAD	Tax Administration Workshop	November 2008
FAD	PFM and Fiscal Decentralization	November 2008
STA	Reweighing and Rebasing of CPI	December 2008
STA	Producer Price Index compilation	December 2008
MCM	Risk based Supervision	January 2009
MCM	Capital Market Regulation and Supervision	March 2008
FAD	Several missions on fiscal decentralization, customs administration, and public finance management	2009–2010
LEG	Missions on Anti-Money Laundering legislation and the Banking Law	2010
MCM	Several mission on monetary operations, bank supervision, payments system and capital market development	2009–2010
STA	Several missions on national accounts, CPI, and external sector statistics	2009–2010

XIV. Resident Representative

The Fund has had a resident representative in Kenya since December 1993. Mr. W. Scott Rogers is the current Senior Resident Representative.

VIII. Kenya: Joint Bank- Fund Management Action Plan 2009–10

Title	Products /Activity	Provisional timing of mission (if relevant)	Expected delivery date
	I. Mutual Information on Relevant Work Program		
Bank Work Program in the next 12 months	**A. Strategy and Analytical Work**		
	Staff Advisory Note on the Medium-Term (2008–12) Strategy for National Transformation	No mission needed	
	Agricultural Policy Review	To be decided	Completed
	Parliament's Role in Governance		Completed
	Police Oversight Mechanisms		Completed
	Economic Update (half-yearly)		December 2009
	Public Expenditure Review		March 2010
	B. Country Assistance Strategy	September 2009	December 2009
	C. Ongoing and New Projects		
	Several projects on public sector reforms including legal and judicial, capacity building, agriculture, natural resource management, transportation, energy, urban services, small and medium scale enterprises, education and health (including HIV/AIDS)	Several	Ongoing
Fund Work Program in the next 12 months	**A. Missions**		
	Article IV Consultation	October 2009	December 2009
	Financial Sector Assessment Program (FSAP) Update	October 2009	December 2009
	Staff Visit to discuss a possible IMF-supported program	April 2010	June 2010
	B. Analytical Work		
	2009 Article IV Mission Analytical Papers: (i*) Spillover Effects of the Global Crisis; (ii) Global Financial Crisis and Adjustment to Shocks in Kenya, Tanzania and Uganda – A Balance Sheet Perspective; (iii) Reserve Adequacy in East African*	October 2009	December 2009

Title	Products /Activity	Provisional timing of mission (if relevant)	Expected delivery date
Fund Work Program in the next 12 months continued	AFR-MCM Project on EAC financial market integration	No mission needed	Ongoing
	Kenya's Retail Price Responses to World Oil Prices	No mission needed	February 2010
	C. Technical Assistance		
	Legal issues		
	Anti Money Laundering Diagnostic Mission	February 2010	April 2010
	Central Banking Law assessment		
	Fiscal sector issues		
	Customs Administration (several missions)	October 2009	July 2010
	Fiscal Decentralization (several missions)	October 2009	July 2010
	Public Finance Management		
	Tax Review Policy		
	MTEF and program budgeting	December2009	
	Monetary and financial sector issues		
	Monetary operations		
	Payments system regulatory and oversight issues	March 2009	Completed
	Capital markets / securities supervision	July 2009	September 2009
	Risk based supervision	February 2009	Completed
	Development of Primary and Secondary markets		
	Nonbank money transfer system	February 2009	Completed
	Statistical Issues		
	CPI Statistics Mission	May 2009	August 2009
	National Accounts Statistics	October 2009	January 2010
	Balance of Payments Statistics	February 2010	April 2010

II. Request for Work program Inputs (as needed)

No outstanding request

III. Agreement on Joint Products

Joint products	Public and External Debt Sustainability Analysis	April 2009	May 2009
	Financial System Stability Assessment	September 2009	December 2009
	Joint Staff Advisory Note (JSAN) on Medium Term Development Plan / Vision 2030	October 2009	December 2009

IX. Kenya: Key Statistical Issues

Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. Weaknesses in macroeconomic statistics reflect organizational and skill shortcomings, and inadequate resources. In line with the new Statistics Law, the government established the autonomous Kenya National Bureau of Statistics (KNBS) in 2007 to replace the Central Bureau of Statistics (CBS).

41. The Report on the Observance of Standards and Codes—Data Module (IMF Country Report No. 05/388) published on October 31, 2005 stated that methodological soundness is uneven across datasets and significant improvement is required in government finance statistics and national accounts. Accuracy and reliability do not receive adequate attention in any of the datasets, while accessibility of the disseminated macroeconomic statistics are adequate, except for the balance of payments statistics.

42. Kenya participates in the Fund's General Data Dissemination System (GDDS) and the GDDS project for Anglophone Africa. Metadata and detailed plans for improving the data over the short and medium term are posted on the Fund's Dissemination Standards Bulletin Board (DSBB). Kenya has received Fund technical assistance. Further assessment of capacity building requirements has been undertaken by the AFRITAC East Statistical Advisor.

43. Monetary, exchange rate, and some external data are published on a monthly and biannual basis by the KNBS in its *Monthly Economic Review*. Core financial data are also made available to the Fund on a regular basis. A detailed account of various sectoral activities and the corresponding statistical data are published annually by the KNBS in its *Economic Survey.*

National accounts

44. Data quality has deteriorated significantly because of budgetary and staff constraints at the KNBS. GDP is believed to be significantly underestimated, as important and increasing parts of the economy, such as the informal sector, nonagriculture subsistence, horticulture, and self-employed professionals are not properly covered. An STA peripatetic advisor assisted the authorities in rebasing the national accounts estimates at constant 2001 prices and compiling institutional accounts for the general government sector. As a result, national accounts estimates for the years 1996–2005 in current and constant (2001) prices) have been published. Quarterly national accounts are being developed with the assistance of the AFRITAC East. Quarterly GDP estimates are now published.

Prices and production

6. In early 2002, the KNBS (then CBS) began publication of a new national CPI (covering 13 urban towns), with 1997 as reference year and outdated weights and basket of items derived from the 1993–94 Household Budget Survey (HBS). Indices are produced for lower and middle/upper income groups in Nairobi and other cities. The index is compiled and published on a timely basis. No producer, export, or import price indices are produced. In March 2008, a TA mission assisted the authorities in identifying the methodological issues

relating to the measurement of inflation. The current methodology of aggregating prices at the elementary level was found to impart a substantial upward bias on CPI measurement. In line with STA recommendations, the KNBS released a revised series that is consistent with international best practices in November 2009. They plan to publish a new series in February 2010, with rebasing and reweighing of the CPI basket.

Government finance statistics (GFS)

7. The data ROSC mission emphasized a number of key areas in GFS compilation that should be improved, including: (i) migration to the *GFSM 2001* methodology; (ii) broadening the coverage to include extrabudgetary and social security funds and report on a general government level; (iii) reconciliation of fiscal statistics from various sources to limit discrepancies; (iv) improve information on external financing, particularly on expenditure directly financed from abroad; (v) compilation and dissemination of monthly and quarterly budget execution data; and (vi) training of Ministry of Finance (MOF) staff in the GFS methodology.

8. Since the beginning of FY 2005/06, Kenya has followed a new economic classification of the budget based on *GFSM 2001* (with assistance from the AFRITAC-East). However, serious delays have emerged in reporting, reflecting difficulties in establishing budget execution and accounting systems consistent with the new classification. To ensure timely reconciliation and monitoring of budget execution, the existing systems would need to be promptly upgraded and made operational. Progress has been made toward moving to the IFMIS. There are still important gaps in ensuring proper reconciliation of fiscal data from different sources, including from various units within the MOF. The discrepancies in budget outturn data (between deficit/surplus and financing) remain significant, and the recording of external financing and expenditure directly financed from abroad is still an important area for improvement. The government has taken some steps to initiate a project to rationalize/eliminate extrabudgetary funds, but the progress in compiling consolidated fiscal statistics has remained limited.

9. The country reports data to STA for the budgetary central government for inclusion in the *GFS Yearbook*, albeit with a significant lag—the last data reported were for the year ending June 2005. The KNBS compiles the aggregate annual GFS revenue and expenditure data for the budgetary central government based on detailed data in the reports of the Controller and Auditor General. The data submitted for publication in the *2007 GFS Yearbook* was reported in *GFSM 2001* format, using bridge tables developed by the technical assistance missions. The recent steps taken in the migration to *GFSM 2001* may help reduce the significant differences between KNBS data and the data compiled by the MOF and reported to AFR for surveillance and program monitoring purposes. Monthly and quarterly data are regularly reported for inclusion in the IFS.

Monetary statistics

10. Progress has been shown in the implementation of the *Monetary and Financial Statistics Manual* (*MFSM*) and development of the standardized report forms (SRFs). The authorities submitted SRF test data; however, there has not been further progress. In March

2007, a STA mission established the standardized report form for the data on the central bank; reviewed and revised the reporting form and compilation notes for the other depository corporations (ODCs) in line with *MFSM* data requirements; and identified the coverage of the ODC subsector. The mission found misclassification of a number of central government deposits as private sector deposits. A major issue for future work relates to the expansion of the coverage of the ODCs to include the Savings and Credit Cooperatives (SACCOS). As of end-March, 2007, there were 3,800 SACCOs, accounting for about 30percent of the total deposits of the banking system. When implemented, a new bill providing for increased supervision over SACCOs would generate data as part of the supervisory function. A follow-up mission in June 2007 conducted a workshop for officials of ODCs and established a system for reporting Form 1SR to the IMF. The new Standardized Reporting System for reporting ODCs' data to the central bank was also finalized. There is no ongoing TA, but, if needed, Kenya can benefit from participating in the monetary module of the next phase DFID project that will commence in 2010.

External sector statistics

11. The KNBS compiles annual balance of payments statistics in Kenya shillings that are regularly reported to STA, although with considerable delay. In addition, the Central Bank of Kenya (CBK) compiles a complete set of annual balance of payments statistics in U.S. dollars, which are reported to AFR and used for programming and surveillance purposes. The two datasets are not entirely consistent, and Fund staff has strongly encouraged the authorities to reconcile them. More recently, the CBK also started to compile and publish quarterly balance of payments estimates.

12. Although the overall quality of trade data may be reasonably good, data for other current account and many financial account transactions are rather weak. Following the liberalization of the exchange system in 1993–94, gaps emerged in coverage. The compilation system (other than that used for compiling customs statistics), used since 1994, relies on reports from domestic banks and may result in a substantial under-recording of current earnings, including tourism receipts; investment flows of the private sector; as well as transactions that are settled via accounts held abroad.

13. Present estimates of direct and portfolio investment are believed to be substantially understated. The large positive errors and omissions in the central bank data that have emerged in the balance of payments since 1994 give rise to uncertainties as to the potential size of external obligations. The MOF compiles data covering public and publicly guaranteed external debt obligations to official and commercial creditors. This database does not take into account nonresident purchases of the government's domestic currency-denominated debt securities. In developing the loan-by-loan debt sustainability analysis (DSA) in 2002, Fund and World Bank staff identified several significant debt data problems that have been addressed by the authorities. Efforts to further strengthen external debt management and its integration in the budget formulation and expenditure management systems continue. In its June 2009 Medium-term Debt Strategy, the government expressed its commitment to strengthening capacity. Also, it indicated that during the 2009/10 financial year, both the domestic and external debt databases at the CBK and Ministry of Finance will be linked through the fiber-optic cable network.

14. To help address these issues, in 2006 a technical assistance mission recommended introducing a foreign investment survey, enhancing the foreign exchange statistics survey, and using a common methodology, including for estimations, in the use of available data in the KNBS and CBK. In 2009, a DFID funded enterprise survey failed to materialize. There are plans to conduct a foreign investment survey in 2010, which planned DFID-funded and STA external sector missions will support.

15. Kenya does not report international investment position statistics to STA.

X. KENYA. Table of Common Indicators Required for Surveillance

(As of November 10, 2009)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items[7]	
						Data Quality—Methodological soundness[8]	Data Quality—Accuracy and reliability[9]
Exchange Rates	11/10/09	11/09/06	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/10/09	11/09/06	D	D	M		
Reserve/Base Money	11/10/09	11/09/06	D	D	M		
Broad Money	9/30/09	10/15/09	M	M	M	LO, LO, LO, LO	LO, LO, O, O, NO
Central Bank Balance Sheet	11/10/09	11/09/06	D	D	M		
Consolidated Balance Sheet of the Banking System	9/30/09	10/15/09	M	M	M		
Interest Rates[2]	11/10/09	11/09/06	D	D	M		
Consumer Price Index	10/31/09	11/10/09	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	6/30/2009	10/09	NA	NA	NA	LNO, LNO, LNO, LO	LNO, LO, LO, LO, NO
Revenue, Expenditure, Balance and Composition of. Financing[3]—Central Government	6/30/2009	10/09	Q	I	Q		
Stocks of Central Government and Central Government Guaranteed Debt[5]	6/30/2009	10/09	Q	Q	Q		
External Current Account Balance	6/30/2009	10/09	M	A	A	O, LO, O, LO	LNO ,LO, LO, LO, LO
Exports and Imports of Goods and Services	6/30/2009	10/09	M	Q	A		
GDP/GNP	6/30/2009	10/09	M	A	A	O, LNO, LNO, LO	LNO, LO, LNO, LO, LNO
Gross External Debt	6/30/2009	10/09	M	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
[7] These columns should only be included for countries for which a Data ROSC (or a Substantive Update) has been prepared.
[8] Reflects the assessment provided in the data ROSC, published on October 31, 2005, and based on the findings of the mission of January 2005, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/ sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

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EXTERNAL
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IMF Executive Board Concludes 2009 Article IV Consultation with Kenya

On December, 22, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kenya.[1]

Background

Kenya's strong economic performance during 2004–07 which resulted in an average of 6.0 percent real GDP growth per annum stalled in 2008 due to a series of adverse developments, including the global economic crisis. The combined impact of the shocks led Kenya to seek Fund financial assistance under the Rapid Access Component of the Exogenous Shocks Facility (RAC-ESF) in May 2009. A combination of policy adjustments and Fund financing of SDR135.7 million (about US$207 million) were instrumental to improving macroeconomic performance and real growth in 2009/10 is now projected at 3.2 percent, up from 2.2 in 2008/09, despite prolonged drought and its spillover effects.

Fiscal deficit in 2008/09 is estimated at 3.6 percent of GDP, falling short of the intended deficit of 5.9 per cent of GDP due to slow implementation of foreign funded development projects. While preserving debt sustainability, the 2009/10 budget seeks to provide fiscal stimulus with a projected fiscal deficit of 6 percent of GDP. Over the medium term and as growth gets entrenched, the fiscal

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

stimulus is expected to be gradually withdrawn and a convergence towards the target debt to GDP ratio of 40 percent is projected.

Since 2008/09 monetary policy stance has been countercyclical. Central Bank of Kenya (CBK) reduced the policy rate and the cash reserve requirement by a total of 125 and 150 basis points respectively. However, the growth rate of monetary aggregates remained below target, and the recently published revised CPI indicates that the inflation environment has been relatively benign.

The Financial Sector Assessment Program (FSAP) Update Mission, which preceded the Article IV Mission, concluded that the banking sector remains well-capitalized and adequately provisioned. However, it was found that increasing cross border transactions and regionalization would require more sophisticated supervision and regulation. In the capital market, the mission found that poor regulation and inadequate funding are key risks faced by the social security fund and other pension schemes.

The current account deficit widened to 7.8 percent of GDP in 2008/09, compared to 4.5 percent the previous year, reflecting the impact of various shocks. In 2009/10, a moderate narrowing of the deficit, to around 7 percent is projected. The authorities have resumed build up of international reserves, and gross official reserves stood at US$3.7 billion or some 3.7 months of imports at end-October 2009.

Progress on the implementation of structural reforms is slow. The Governance Action Plan (GAP) has been updated, but the Public Finance Management Bill, meant to address some weaknesses in structural fiscal issues, and the Banking Act (Amendment) Bill, which is meant to strengthen the hand of the CBK by authorizing consolidated supervision and prompt corrective action, are yet to be brought before Parliament. Several other pieces of legislation designed to improve economic governance have not been enacted.

Executive Board Assessment

Executive Directors commended the Kenyan authorities for implementing sound macroeconomic policies that are now contributing to a nascent recovery from the recent multiple adverse shocks. Directors cautioned that, given that downside risks remain, it will be important to continue pursuing sound economic policies in order to place the economy on a robust growth trajectory with debt sustainability and low inflation.

Directors agreed that fiscal policy should strike the proper balance between providing economic stimulus and preserving debt sustainability, noting that the 2009/10 budget is broadly appropriate in providing needed stimulus. Directors generally supported contingency plans for the budget to address possible revenue shortfalls. They welcomed the plan to gradually begin the withdrawal of fiscal stimulus in the next budget year and supported strongly the convergence to the public debt target over the medium term. Directors endorsed the introduction of an income support scheme aimed at protecting the vulnerable and poor households.

Directors considered that easing monetary policy had been appropriate given the need to support economic activity. Going forward, they generally recommended that monetary policy focus more acutely on safeguarding price stability; and that available instruments should be employed decisively to achieve this objective. Directors welcomed planned reforms to the monetary operations framework, and recommended that policy objectives be communicated clearly. They also welcomed the release of a revised CPI and plans to release a new series in early 2010, which would enhance the effectiveness of monetary policy.

Directors observed that the managed float exchange rate regime has served Kenya well. They noted staff's assessment that the real effective exchange rate seems broadly in line with economic fundamentals. Directors supported the authorities' intention to limit foreign exchange interventions to smoothing excessive short-term volatility and meeting the foreign reserve target.

Directors welcomed the assessment of the FSAP Update that the banking sector is well capitalized and adequately provisioned. While the financial sector has weathered the immediate impact of the global crisis, they concurred that risks remain. Directors commended the authorities for the progress made in implementing the recommendations of the 2003 FSAP. They encouraged expedited implementation of remaining recommendations to address emerging weaknesses related to cross-border transactions and regionalization, and regulation of pension schemes. The Central Bank of Kenya should ensure that provisions and capital buffers remain adequate to deal with future risks.

Directors noted the authorities' development strategy as laid out in their First Medium-Term Plan under Kenya Vision 2030. They stressed accelerating broad-based structural and governance reforms in order to improve the prospects for rapid economic growth over the medium term. Directors recommended giving immediate priority to reforms of governance, public finance management, and the financial sector. They commended the authorities for the recent passage of the AML legislation, and called for speedy submission of remaining pending bills aimed at consolidating the structural reform agenda. They also supported the authorities' efforts to enhance trade liberalization and strengthen the EAC regional integration framework.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Kenya: Selected Economic and Financial Indicators, 2006/07–2010/11

	2006/07	2007/08	2008/09	2009/10	2010/11
	Actual	Actual	Estimate	Projections	
	(Annual percentage change, unless otherwise indicated)				
National accounts and prices					
Real GDP growth (market prices) [1]	6.7	4.3	2.2	3.2	4.6
Consumer price index (annual average) [1]	10.4	18.5	12.5	8.5	5.0
Consumer price index (end of period) [1]	11.1	29.3	8.9	7.0	5.0
Ksh per US $ exchange rate (end of period) [2]	62.6	64.6	76.3	74.5	...
Money and credit					
M3X (broad money and foreign currency deposits, end period)	17.0	18.7	12.5	14.8	
Reserve money (end of period)	19.8	18.2	4.6	12.8	
	(In percent of GDP, unless otherwise indicated)				
Investment and saving					
Investment	18.5	19.1	18.9	18.8	19.1
Central government	4.6	6.6	7.0	9.2	9.6
Other	13.9	12.5	11.8	9.6	9.5
Gross national saving	15.1	14.8	11.0	11.8	13.7
Central government	2.0	1.7	2.3	2.3	3.3
Other	13.1	13.2	8.7	9.4	10.4
Central government budget					
Total revenue	21.6	22.0	21.6	22.3	22.7
Total expenditure and net lending	24.3	27.3	26.5	29.5	29.3
Overall balance (commitment basis) excluding grants	-2.7	-5.2	-4.8	-7.2	-6.6
Overall balance (cash basis) including grants	-1.7	-3.4	-3.7	-6.0	-5.4
Balance of payments					
Exports value, goods and services	26.2	25.4	26.6	23.0	22.1
Imports value, goods and services	35.8	35.9	40.6	36.2	33.5
Current external balance, including official transfers	-3.5	-4.3	-7.8	-7.1	-5.3
Current external balance, excluding official transfers	-3.5	-4.5	-7.8	-7.0	-5.3
Gross international reserve coverage					
in months of next year imports (end of period)	3.0	3.5	3.3	4.0	4.0
Public Debt					
Total public debt, net of deposits (end of period)	42.0	37.2	40.2	42.9	43.6
NPV of central government debt (end of period)	34.8	28.6	29.0	32.0	33.4
Of which: NPV of external debt	15.5	11.7	11.2	11.7	11.8

Sources: Kenyan authorities; and IMF staff estimates and projections.
[1] Up to 2007/08, GDP Deflator and Consumer Price Index are overestimated.
[2] Actual as of November 20, 2009.