IMF Country Report No. 16/32

# KENYA

February 2016

## REQUEST FOR EXTENSIONS OF THE TWELVE-MONTH STAND-BY ARRANGEMENT AND THE STANDBY CREDIT FACILITY ARRANGEMENT—PRESS RELEASE; AND STAFF REPORT

In the context of the Request for an Extension of the Arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time basis, following discussions that ended on December 16, 2015, with the officials of Kenya on economic developments and policies underpinning the IMF arrangements under the Stand-By Arrangement and Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on January 19, 2016.

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

Letter of Intent sent to the IMF by the authorities of Kenya*

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

**International Monetary Fund**
**Washington, D.C.**

Press Release No. 16/29
FOR IMMEDIATE RELEASE
January 28, 2016

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Approves Extension of the Stand-By Arrangement and Stand-By Credit Facility for Kenya**

The Executive Board of the International Monetary Fund (IMF) approved on January 27, 2016—without an Executive Board meeting[1]—an-extension of both Kenya's Stand-By Arrangement (SBA) and Arrangement under the Standby Credit Facility (SCF) to March 15, 2016. This extension will provide time to the authorities to finalize fiscal measures for 2015/16 and implement structural measures under the program.

The 12-month SBA/SCF with a combined total access of SDR 488.52 million (about US$687 million) were approved by the IMF's Executive Board on February 2, 2015 (see Press Release No. 15/29). Following the conclusion of the first review in September 2015, amounts available under the arrangements reached SDR 434.24 million (about US$610.7 million) for the Kenyan authorities to draw on in the event that exogenous shocks lead to an actual balance of payments need. The authorities continue to treat both the arrangements as precautionary.

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

# KENYA

January 19, 2016

## REQUEST FOR EXTENSIONS OF THE TWELVE-MONTH STAND-BY ARRANGEMENT AND THE STANDBY CREDIT FACILITY ARRANGEMENT

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

Prepared by the African Department, in consultation with other departments.

1. **In the attached letter, the Kenyan authorities request extensions of the Stand-By Arrangement (SBA) and the arrangement under the Standby Credit Facility (SCF) (which are due to expire on February 1, 2016) through March 15, 2016.** The Executive Board approved, on February 2, 2015, both the 12-month precautionary SBA and SCF for Kenya, with an immediate combined access of SDR 379.96 million (140 percent of quota). Following the completion of the first program review in September 2015, SDR 434.24 million (160 percent of quota) has become available under the two arrangements. The authorities continue to treat both arrangements as precautionary.

2. **The extension will allow the authorities to finalize fiscal measures for 2015/16 and implement structural measures under the program.** Owing to revenue shortfalls and higher interest expenses, the authorities will need to implement fiscal measures amounting to about 1 percent of GDP in order to achieve the programmed fiscal deficit target of 8 percent of GDP for FY 2015/16. These measures are expected to be announced in the context of the budget policy statement to be submitted to parliament in the coming weeks. Regarding structural measures, the authorities indicated that they needed more time to complete internal consultations and due processes on the establishment of a single treasury account, the appointment of a director general of the debt management unit, the audit of the list of assets and liabilities of counties, and the finalization of GFS-compliant consolidated fiscal accounts for the national government and parastatals.

3. **The economy continued to expand robustly, although at a slower-than-projected pace.** Real GDP is estimated to have grown by 5.6 percent in 2015, driven by public infrastructure spending, buoyant credit growth, and strong consumer demand. But the growth acceleration in 2015 is slower than projected under the program, reflecting delays in planned road infrastructure spending, weaker tourism receipts, and volatile external capital flows. Gross international reserves at about 4 months of imports remain adequate. At the same time, inflation rose to 8 percent in December, exceeding the upper bound of the authorities' target range for inflation (5+/-2.5 percent).

**4. Staff's assessment based on recent data is that performance under the current program remains broadly satisfactory.** All end-September performance criteria and indicative targets, as well as continuous performance criteria were met. All end-December indicative targets are likely to have been met. The staff and the authorities continue discussions on the appropriate monetary policy response to the rising inflation. The authorities are committed to complete all structural benchmarks.

**5. Staff supports the authorities' request for extensions of the arrangements through March 15, 2016.** Completion of the second reviews will allow for a total of SDR 488.52 million (180 percent of the quota) to become available. The attached decisions are proposed for adoption by the Executive Board on a lapse-of-time basis.

# Letter of Intent

Nairobi, Kenya
January 18, 2016

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

Dear Ms. Lagarde:

The Stand-By Arrangement (SBA) and the arrangement under the Standby Credit Facility (SCF) with combined access of SDR 488.52 million (equivalent to 180 percent of quota) were approved on February 2, 2015 and are due to expire on February 1, 2016. We continue to treat both arrangements as precautionary. We would like to request extensions of the SBA and SCF through March 15, 2016.

Performance under our economic program supported by the SBA/SCF has been broadly in line with program targets. We met all end-September 2015 and continuous performance criteria (PCs), as well as all end-September quantitative indicative targets. We are committed to complete all structural benchmarks.

The program extension until March 15, 2016 will provide additional time to finalize fiscal measures for 2015/16 and implement programmed structural measures.

We remain fully committed to the successful completion of our economic program under the SBA and SCF. We are also interested in continuing program engagement with the Fund after the expiration of the current SCF/SBA arrangements.

Sincerely yours,

/s/
Henry Rotich, EGH
Cabinet Secretary
The National Treasury

/s/
Dr. Patrick Njoroge
Governor
Central Bank of Kenya