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2023 ARTICLE IV CONSULTATION, SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR AUGMENTATIONS OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, AND FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KENYA

In the context of the Staff Report 2023 Article IV Consultation, Sixth Reviews Under the Extended Fund Facility and Extended Credit Facility Arrangements, Requests for Augmentations of Access, Modification of Performance Criteria, Waiver of Nonobservance of Performance Criteria, Waiver of Applicability of Performance Criteria, and First Review Under the Resilience and Sustainability Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2024, following the discussions that ended on November 15, 2023, with the officials of Kenya on economic developments and policies underpinning the IMF Arrangements under the Extended Fund Facility, Extended Credit Facility, and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the Staff Report was completed on December 22, 2023.
- **Supplements of the Staff Report** updating information on recent developments.
- **Statement by the Executive Director** for Kenya.

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PRESS RELEASE

PR 24/12

IMF Executive Board Concludes 2023 Article IV Consultation, Sixth Reviews of the Extended Arrangements Under the EFF and ECF Arrangements, and First Review Under the Resilience and Sustainability Facility Arrangement for Kenya

FOR IMMEDIATE RELEASE

- Performance under the EFF/ECF arrangements is broadly aligned with the program's objectives, while the RSF arrangement is supporting the authorities' climate agenda.
- Steadfast implementation of the package of mutually reinforcing policies and reforms is the key to maintaining macroeconomic stability, strengthening debt sustainability, and building buffers against shocks.
- Near-term policy responses should complement measures needed to bolster Kenya's medium-term prospects toward a vibrant, inclusive, green, and market-driven economy.

Washington, DC – January 17, 2024: The Executive Board of the International Monetary Fund (IMF) concluded today the 2023 Article IV consultation[1] with Kenya together with the sixth reviews and augmentations of access (SDR707.27 million, about US$941.2 million) under the extended arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF), approved in April 2021 and extended by 10 months in July 2023 to April 2025, and the first review under the 20-month Resilience and Sustainability Facility (RSF) arrangement, approved in July 2023.

The Board's decision allows for the immediate disbursement of SDR469.25 million (about US$624.5 million) under the EFF/ECF arrangements - which includes an augmentation of access of SDR233.40 million (about US$310.6 million) - and brings total disbursements under the EFF/ECF arrangements to SDR1,978.23 million (about US$2.6 billion). The decision also allows for an immediate disbursement of SDR45.23 million (about US$60.2 million) under the RSF arrangement.

In completing the reviews, the Executive Board also approved modification of program conditionalities, waivers of nonobservance of the continuous performance criterion on no new accumulation of external arrears and the end-June 2023 and end-December 2023 tax revenue targets considering the corrective actions taken by the authorities, and waiver of applicability for all other end-December 2023 performance criteria.

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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.

The Kenyan economy remains resilient against a challenging global backdrop even as it recovers from the legacy of the COVID-19 pandemic and the worst multi-season drought over the past two years. The economy expanded by 5.6 percent y/y in the first nine months of 2023, driven by a strong recovery in agriculture which also helped lower both overall and food inflation. Non-agricultural growth, however, slowed amid tighter policies. Fiscal consolidation continued, delivering a stronger primary balance than originally envisaged in FY2022/23, while monetary policy was tightened by 375 basis points in 2023. The external current account balance has improved as real exchange rate depreciated and imports contracted. Exports and remittances remained resilient. While foreign exchange reserves remain adequate, they declined in the second half of 2023 amid debt service payments and limited external financing inflows.

The near-term outlook is one of continued resilience with growth projected at around 5 percent in 2024 amid ongoing adjustments in the fiscal policy and external accounts. Inflation is expected to inch up in the first half of 2024, driven primarily by global oil price volatility and exchange rate passthrough, but to remain contained due to the recent monetary policy tightening and as the authorities strive to deliver a stronger fiscal consolidation to stabilize the overall public debt/GDP in 2024. Notwithstanding the elevated downside risks in the near term, the authorities should be resolute in their actions to help keep confidence anchored.

Kenya's medium-term prospects are positive and could be buttressed by improving competitiveness, inclusivity, and enhancing governance and anti-corruption framework to support a vibrant and market-driven economy. Progress on the authorities' climate agenda, including RSF-supported reforms, will not only prepare the country well against future climate shocks, but also help attract climate finance to support these further efforts.

At the conclusion of the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Direction and Acting Chair, issued the following statement:

"Kenya's growth remained resilient in the face of increasing external and domestic challenges. The EFF/ECF and RSF arrangements continue to support the authorities' efforts to sustain macroeconomic stability, strengthen policy frameworks, withstand external shocks, push forward key reforms, and promote more inclusive and green growth.

"Kenya's performance under the ECF/EFF arrangements have been mixed with adherence to quantitative targets being broadly satisfactory. The authorities have made welcome progress in some key areas, including governance and public financial management. Continued implementation of corrective measures to address missed targets and accelerated reforms will be important.

"The authorities' commitment to fiscal consolidation while protecting essential social and developmental spending should support efforts to bring down the debt burden toward the new debt anchor of 55 percent of GDP in present value terms by 2029. Implementation of the Medium-Term Revenue Strategy would be key to reverse the erosion in the tax base while promoting equity and fairness in the tax regime and create more space for spending to improve public services. Risks to planned fiscal consolidation should be monitored and

contingency plans promptly activated as needed. Effective communication of fiscal policy objectives would support efforts at easing financing pressures.

"Monetary policy has demonstrated its ability to react to inflation shocks and anchor expectations. The Central Bank of Kenya should continue to act decisively to ensure that inflation converges firmly to the target. Strengthening of the monetary policy framework would support price stability and external sustainability. The exchange rate should be allowed to respond flexibly to market conditions. Recent measures at facilitating greater exchange rate flexibility should help ease FX market dysfunction and support a buildup of FX reserves. The banking system is generally sound, but emerging vulnerabilities need close monitoring.

"Unlocking Kenya's potential and realizing its positive medium-term prospects will require resolute efforts at sustaining structural reforms to support more job creation, poverty reduction, and making the economy greener and more resilient. To this end, boosting export competitiveness; addressing weaknesses in governance and the anti-corruption framework, including on AML/CFT; and improving resilience to climate shocks by further strengthening Kenya's track record in promoting climate risk considerations in fiscal planning and the investment framework, improving disaster risk management, and attracting more climate finance will be important."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They positively noted the resilience of the Kenyan economy despite the ongoing fiscal and external adjustments in a challenging environment. While welcoming the authorities' commitment to program objectives and the corrective actions taken, Directors noted that program performance has been mixed and called for strengthened implementation going forward. Noting the significant program risks, repeated augmentation requests and difficult market conditions, they underscored that a steadfast implementation of mutually reinforcing prudent policies and reforms, supported by contingency planning, capacity development, and effective communication, remain crucial to build market confidence, reduce poverty and sustain growth. Collaboration with development partners is also paramount, including in Kenya's financing strategy. Directors generally noted that the assessment of the exceptional access criteria rests on strong program ownership given the highly uncertain environment.

Directors emphasized the importance of further front-loaded fiscal consolidation efforts to mitigate debt vulnerabilities and to achieve Kenya's new debt anchor by 2029. In this context, they stressed the need for continued fiscal prudence, supported by domestic revenue mobilization and expenditure rationalization. Strengthening social safety nets and improving efficiency of investment are also crucial. On tax collections, Directors expressed concerns

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[2] 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. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

over recent shortfalls and called for urgent implementation of corrective measures, including timely adoption of measures in the Medium-Term Revenue Strategy. They also reiterated the need for managing fiscal risks proactively including from pending bills and contingent liabilities. Directors encouraged further strengthening of debt management capacity.

Directors welcomed the recent monetary policy tightening to keep inflationary expectations anchored and safeguard external sustainability. They also positively noted efforts to enhance the effectiveness of the monetary policy framework and the efficient functioning of financial markets. Actions towards greater exchange rate flexibility are also important. In that context, Directors encouraged continued institutional and technical reforms targeted at improving the functioning, deepening, and transparency of the FX market. Acknowledging the generally sound condition of the banking system, they underscored the importance of closely monitoring and addressing any emerging financial sector vulnerabilities.

Directors called for fast-tracking structural reforms to enhance export competitiveness, strengthen public financial management and the state corporations, and address weaknesses in governance and the anti-corruption framework, including on AML/CFT.

Directors commended Kenya's progress in reforms supported by the RSF arrangement, encouraged efforts at garnering additional climate finance, and welcomed mainstreaming of gender in climate-change reforms for inclusive growth and supporting the green transition.

It is expected that the next Article IV consultation with Kenya will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Kenya: Selected Economic Indicators, 2021–2026

	2021 Act.	2022 Act.	2023 Est./ Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Output						
Real GDP growth (percent)	7.6	4.8	5.1	5.0	5.3	5.3
Prices						
Inflation – average (percent)	6.1	7.6	7.7	7.0	5.2	5.4
Central government finances (fiscal year)[1]						
Total revenue (percent of GDP)	16.1	17.6	16.7	19.0	19.1	19.5
Expenditure and net lending (percent of GDP)	24.4	23.8	22.6	23.8	22.7	22.6
Overall fiscal balance (percent of GDP)	–8.3	–6.3	–5.6	–4.7	–3.5	–3.1
Public debt						
Gross nominal debt (percent of GDP)	68.2	67.9	73.2	73.3	70.3	67.8
Gross external debt (percent of GDP)	34.7	34.5	40.5	42.4	40.4	38.8
Money and Credit (end of period)						
Broad money (percent change)	6.1	7.1	13.8	12.4	10.8	11.0
Credit to private sector (percent change)	8.6	12.5	11.1	10.8	12.6	12.3
Policy rate, end-of-period (percent)	7.0	8.75	12.5	…	…	…
Balance of payments						
Current account balance (percent of GDP)	–5.2	–5.2	–4.0	–4.1	–4.2	–4.2
Gross international reserves (in months of imports)	4.7	4.4	4.0	4.0	4.1	4.2
Exchange rate						
REER (average percent change; positive = appreciation)	–2.6	2.2	…	…	…	…

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

[1] Based on fiscal year (i.e., 2024 represents fiscal year 2023/24, covering July 2023–June 2024).

INTERNATIONAL MONETARY FUND

KENYA

December 22, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR AUGMENTATIONS OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, AND FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. The Kenyan economy remains resilient amid a confluence of global, regional, environmental, and domestic political risks. These factors, including costly and uncertain international bond market access for frontier market economies in an environment of "higher for longer" global interest rates, are adding to Kenya's balance of payments and fiscal financing needs despite policy efforts to sustain domestic and external balances. The authorities' EFF/ECF-supported program, approved in April 2021 and extended by 10 months in July 2023 to April 2025, continues to evolve to address the emerging challenges, including to restore market confidence while incorporating additional policy actions to reduce debt vulnerabilities, a key objective of the program. The program also endeavors to bolster Kenya's medium-term prospects by enhancing fiscal risk management, strengthening external buffers, and improving the governance framework.

Macroeconomic developments. Real GDP grew by 5.4 percent in the first half of 2023 following a strong recovery in agriculture which also helped inflation ease inside the authorities' target band since July. The FY2022/23 fiscal primary deficit (0.6 percent of GDP) was in line with expectations at the fifth EFF/ECF reviews and reflected tight expenditure execution in the face of a significant tax shortfall (1 percent of GDP). Preliminary data through end-October suggest a gradually improving fiscal performance although taxes through end-November underperformed. Domestic financing costs have risen, reflecting a tighter monetary policy stance and liquidity, and bunching of external financing in the second half of the fiscal year. The current account deficit has narrowed amid real exchange rate depreciation as non-energy imports declined while tourism receipts and remittances remained resilient. In the absence of major inflows, FX reserves have declined, as anticipated, but remain adequate. The banking sector is profitable

though credit and market risks are elevated.

Program performance. Program implementation was mixed, reflecting broadly satisfactory adherence to quantitative targets but delays in implementing the structural benchmarks (SBs). All end-June 2023 quantitative targets were met except for the tax revenue target. The continuous performance criterion on accumulation of no new external payment arrears was breached. Corrective actions have been taken on missed quantitative targets. The end-June 2024 quantitative performance criteria (QPC) on the primary fiscal balance and net international reserves are proposed to be modified. Under the EFF arrangement, the end-December 2023 QPC on tax revenues is likely to be missed. The authorities have submitted to Parliament corrective measures to remedy this underperformance and to ensure it does not impact achievement of the end-June 2024 tax target. The Monetary Policy Consultation Clause was triggered for end-June 2023 for which a consultation with the IMF Executive Board was completed in July. While the seven SBs for June-October 2023 were not met, six have been implemented with delay. The end-September SB related to a strategy to validate and clear the stock of pending bills outstanding at end-June 2022 is being proposed to be reset to end-February 2024 to allow sufficient time given the expanded scope mandated by the Cabinet. The first reform measure under the RSF arrangement was implemented in a timely manner.

Policies and reforms. Steadfast implementation of a package of mutually reinforcing policies and reforms remains the key to sustain macroeconomic stability, maintain debt sustainability, anchor market confidence, and bolster Kenya's medium-term prospects. Against the backdrop of rising debt level due to an increase in interest payments and exchange rate depreciation, a stronger fiscal primary balance path is envisaged to stabilize and subsequently bring down debt to the authorities' debt anchor level by 2029 while also advancing efforts to strengthen public financial and fiscal risk management. The envisaged fiscal consolidation would be anchored by policies to improve spending efficiency and Kenya's medium-term revenue strategy while safeguarding social and developmental spending. Monetary policy was tightened further by 200 basis points in December to support external sustainability, mitigate second-round effects on inflation, and facilitate an efficient functioning of the FX market. Reforms to improve export competitiveness and revenues will safeguard debt sustainability, while advancing the agenda on climate (including under the RSF), inclusive growth and strengthening governance and anti-corruption would buttress Kenya's medium-term prospects.

Augmentations of access under the EFF/ECF arrangements. Urgent balance of payments needs have emerged, primarily due to the US$2 billion Eurobond maturing in June 2024 as prior expectation of a full rollover via a bond issuance at a reasonable cost is unlikely to materialize under the prevailing global bond market conditions. Consequently, the authorities are seeking additional financing from concessional (including the World Bank) and commercial (syndicated loans) sources. For the remainder of the gap, the authorities are requesting a blended augmentation of access under the EFF/ECF arrangements amounting to 130.3 percent of quota (SDR707.27 million) to be disbursed as budget support upon completion of the sixth and seventh EFF/ECF reviews. The proposed augmentation would trigger both GRA exceptional access (EA) and Policy Safeguards for High Combined Credit. Under Fund policies, staff assesses that Kenya meets the GRA EA criteria.

Program risks. Risks to the program are elevated from both global and domestic sources. However, commitment from the highest political level of necessary policy actions and good prospects for additional external financing from development partners are expected to mitigate those risks. The implications for GRA and PRGT resources from the proposed augmentation are expected to be manageable, but the Fund would be exposed to enterprise and financial risks.

Approved By
Catherine Pattillo (AFR) and Eugenio Cerutti (SPR)

The mission team comprised H. Teferra (Head), S. Çakir (IMF Resident Representative in Nairobi office), V. Crispolti, S. Gupta, and I. Stuart (all AFR); S. Mirzayev (SPR); G. Pasricha (MCM); S. Hida (FAD); L. Malcherek, D. Robinson, and R. Snipeliski (All LEG, joining virtually); and D. Tallam and K. Tuitoek (Nairobi office), with assistance from F. Morán Arce, M. Nsanzimana, and F. Nyankiye, (all AFR), Rhys Maza (MCM), and E. Muiruri and C. Odwogi (Nairobi office). Discussions were held in Nairobi during October 30–November 15, 2023. E. Nyamongo (advisor, OEDAE) joined the discussions. The team met with President of Kenya, Dr. William Ruto; Cabinet Secretary (CS) for National Treasury & Economic Planning (NT), Prof. Njuguna Ndung'u; CS for Ministry of Energy and Petroleum, Mr. Davis Chirchir; Chief of Staff and Head of Public Service, Mr. Felix Koskei; Governor of the Central Bank of Kenya (CBK), Dr. Kamau Thugge; the Principal Secretary for NT, Dr. Chris Kiptoo; Deputy Governor of CBK, Dr. Susan Koech; members of the Presidential Council of Economic Advisors; the Parliamentary Budget Office; Controller of Budget; and other senior government and CBK officials and members of the judiciary. The mission also had productive discussions with a range of government agencies, private sector representatives from financial and nonfinancial sectors, and Kenya's development partners.

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Abbreviations

AML/CFT	Anti-money laundering/combatting financing of terrorism
BoP	Balance of payments
BROP	Budget Review and Outlook Paper
BRS	Business Registration Services
CA	Current account
CBK	Central Bank of Kenya
CIT	Corporate income tax
CPI	Consumer price index
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EA	Exceptional access
EAC	East African Community, the
EAEM	East Asian emerging markets
EPRA	Energy and Petroleum Regulatory Authority
FATF	Financial Action Task Force
FLLoCA	Financing Locally Led Climate Action
FX	Foreign exchange
FY	Fiscal year
GDP	Gross domestic product
GRA	General Resources Account
IFMIS	Integrated Financial Management System
IT	Indicative target
KPLC	Kenya Power and Lighting Company
KQ	Kenya Airways
KRA	Kenya Revenue Authority
LIC	Low-Income Country
MDA	Ministries, Departments, and Agencies
MEP	Ministry of Energy and Petroleum
MER	Mutual evaluation report
MEFP	Memorandum of Economic and Financial Policies
MPCC	Monetary policy consultation clause
MTRS	Medium-Term Revenue Strategy
NHM	Nonhydrocarbon/nonmineral
NT	National Treasury & Economic Planning
NPL	Nonperforming loan
NRA	National Risk Assessment
PAYE	Pay as you earn
PFM	Public financial management
PPP	Public private partnership
PRGT	Poverty Reduction and Growth Trust
PS-HCC	Policy Safeguards for High Combined Credit

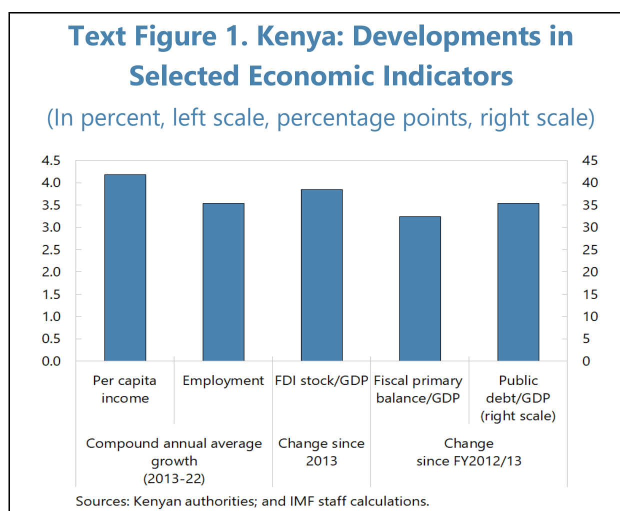
PV	Present value
QPC	Quantitative performance criterion
RM	Reform measure
SAGA	Semi-Autonomous Government Agency
SB	Structural benchmark
SC	State corporation
SOE	State-owned enterprise
TA	Technical assistance
TMU	Technical Memorandum of Understanding
UCT	Upper Credit Tranche
VAT	Value-added tax
y/y	Year-on-year

CONTEXT—SECURING MACROECONOMIC STABILITY DURING HIGH UNCERTAINTY

1. **The Kenyan economy has shown considerable resilience to recent shocks, though risks to reversal of hard-earned gains in poverty reduction are growing.**[1] Kenya recently achieved lower-middle-income status with GDP growth averaging 4.8 percent over 2015–19, supported by private consumption and ambitious debt-financed public investment to help close the large infrastructure gap while also implementing the devolution mandate under the 2010 Constitution (Text Figure 1). However, the COVID-19 pandemic and the severe multi-season drought in 2021–22 led to an increase in poverty despite the authorities' efforts to support the most vulnerable.[2]

Text Figure 1. Kenya: Developments in Selected Economic Indicators

(In percent, left scale, percentage points, right scale)



Sources: Kenyan authorities; and IMF staff calculations.

2. **Tight global financing conditions coupled with challenges in mobilizing domestic resources added to the liquidity pressure.** Kenya is at a high risk of debt distress and public debt is estimated to have reached 73 percent of GDP by end-2023, with debt service consuming about 55 percent of revenues. Costly and uncertain international bond markets access for frontier economies is creating liquidity pressure owing to large external debt service payments in 2024 (Text Figures 2 and 3).[3] Social discontent owing to rising cost of living, regional insecurity, and risks of widespread flooding from El Niño rains are adding to the existing challenges.

3. **The EFF/ECF program has provided an essential policy anchor in the face of heightened uncertainty.** Relative to the expectations at program approval, growth is lower and inflation higher, reflecting global and domestic shocks (Text Table 1). Yet, policy implementation has been broadly in line with key recommendations from the previous Article IV consultation (Annex I), supporting the program to remain on track. The authorities have secured the programmed fiscal consolidation despite unanticipated spending pressures from the shocks and the August 2022

[1] Population living under the national poverty line declined from 46.7 percent to 33.6 percent during 2005–19 (the World Bank's December 2023 Kenya Economic Update).

[2] The poverty rate increased to 42 percent in 2020 and recovered to 38.6 in 2021, though it remains above the pre-pandemic level (the World Bank's December 2023 Kenya Economic Update). The number of unemployed more than doubled from 0.8 million in 2019Q2 to 1.8 million by 2020Q2. Employment decreased by almost two million (Kenya National Bureau of Statistics, 2020).

[3] Kenya last issued a Eurobond in June 2021 and canceled plans for another issuance in 2022Q2 as general market conditions became unfavorable amid rising global interest rates and onset of the war in Ukraine. In FY2022/23, Kenya relied on syndicated loans for external commercial borrowing and expects some additional syndicated loans in FY2023/24.

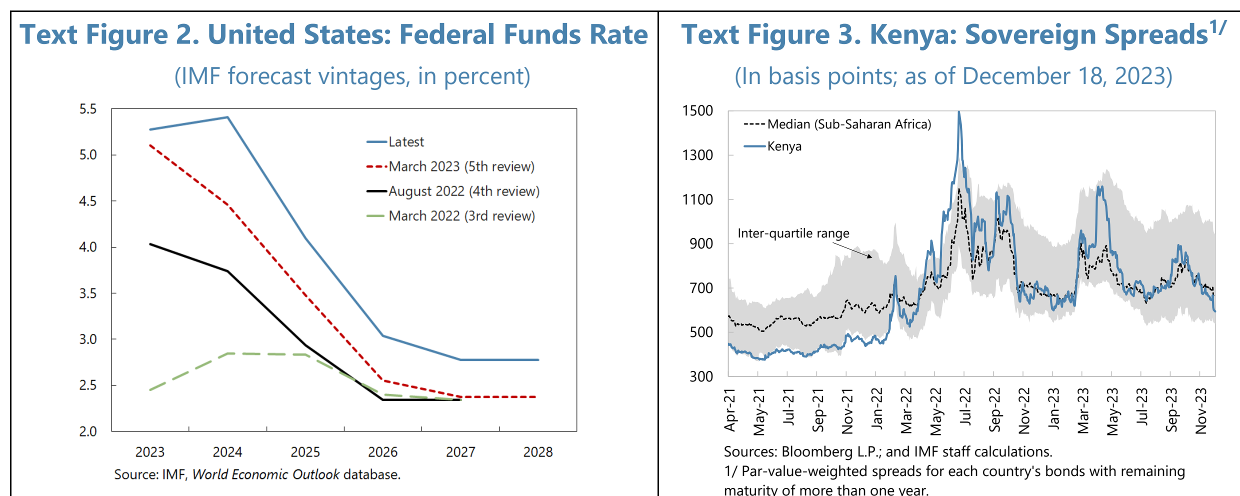
elections.[4] This helped limit the growth in public debt despite a larger-than-expected real exchange rate depreciation. However, the composition of fiscal consolidation has been uneven, particularly due to a significant tax underperformance in FY2022/23. On the external front, the current account balance (CA) has seen a larger adjustment, but FX reserves have underperformed on tighter global financing and worsening trade conditions, and FX sales by the central bank in response to external shocks. Domestic FX market dysfunction in 2022–23 impeded price discovery and efficient FX allocation and discouraged external capital inflows.

Text Figure 2. United States: Federal Funds Rate

(IMF forecast vintages, in percent)

Text Figure 3. Kenya: Sovereign Spreads[1/]

(In basis points; as of December 18, 2023)



Source: IMF, *World Economic Outlook* database.

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

4. Against this backdrop, the authorities have requested financial assistance from their development partners and the Fund as additional balance of payments needs have emerged since the fifth EFF/ECF reviews. Kenya's re-access to the Eurobond market in 2024 at a reasonable cost for a full rollover of its US$2 billion Eurobond maturing in June 2024 is unlikely, contributing to the higher balance of payments (BoP) financing gap. As a result, the authorities are pursuing a combination of additional concessional (including from the World Bank) and commercial (loan syndication) financing to partly close the financing gap. For the residual of the gap, the authorities are requesting a blended augmentation of 130.3 percent of quota (SDR707.27 million) as budget support via the central bank in FY2023/24, triggering both GRA exceptional access (EA) and the Policy Safeguards for High Combined Credit (PS-HCC)

Text Table 1. Kenya: Two Years of the Program

	At program approval	Est. as of 2023
Real sector (2021-23 averages)	In percent	
Real GDP growth	6.5	5.8
Per capita income growth (compound average)	4.5	4.2
Consumer inflation	5.0	7.2
Central government finance (FY2020/21-FY2022/23 changes)	In percentage points of GDP	
Primary fiscal balance	3.5	3.5
Overall fiscal balance	2.9	2.6
Contributions from taxes	1.8	0.5
Contrbutions from other revenues and grants	-1.2	0.1
Contributions from recurrent spending	-1.6	-0.4
Contributions from development spending	-0.7	-1.4
Public debt	2.5	2.9
External sector (2020-23 changes)	In percentage points of GDP	
FX reserves	0.0	-2.0
In months of imports	-0.5	-0.5
Current account balance	-0.7	1.0
Excl. energy imports	0.2	2.0
Financial account balance	1.3	-0.5

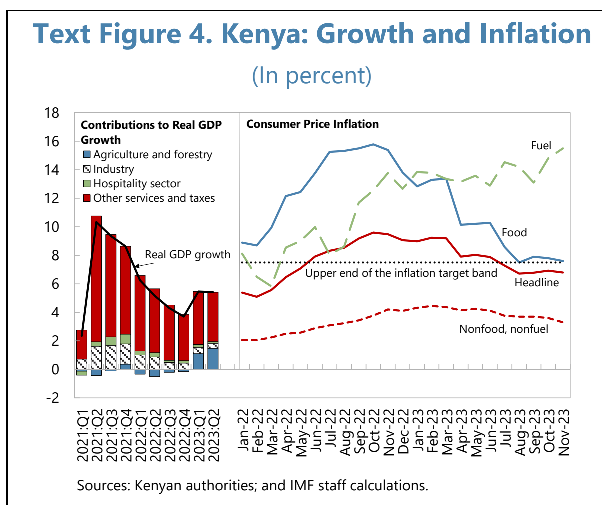
Source: IMF staff calculations.

[4] See ¶8 in IMF Country Report, CR/2022/82.

(see ¶37–39). Upside potentials for external financing in 2024 remain as the catalytic effect of Fund augmentation could help the authorities in their pursuit of additional concessional, including bilateral, and commercial financing.

RECENT MACROECONOMIC DEVELOPMENTS

5. The economy remains resilient amid shocks and a tighter policy stance (MEFP¶1–9, Figures 1–7).



Text Figure 4. Kenya: Growth and Inflation
(In percent)

Sources: Kenyan authorities; and IMF staff calculations.

- Growth was at 5.4 percent y/y in the first half of 2023, following a strong rebound in agriculture (6.9 percent), which also helped lower food inflation, while non-agricultural growth slowed following tightening of policies (Text Figure 4).[5] While fuel inflation remains elevated amid adjustments in administered prices, headline inflation has eased inside the target band (2.5–7.5 percent) since July and was at 6.8 percent y/y in November, broadly in line with the program baseline. The Central Bank of Kenya's (CBK) measure of core inflation has eased to 3.3 percent, lowest since September 2022. The CBK has tightened the policy rate by 375 basis points in 2023, including the 200-basis-point hike in December to bring the policy rate to 12.5 percent. The current account (CA) deficit has narrowed as the real exchange rate continues to adjust. Imports have declined, while tourism has recovered further, and remittances remain resilient. However, FX reserves declined in the second half of 2023, broadly as anticipated, in view of large debt service payments in the absence of major inflows. The CBK has made small net FX purchases in recent months, reversing the periodic FX sales seen earlier in the program in response to shocks.

- The FY2022/23 fiscal outturn was broadly in line with projections at the time of the fifth EFF/ECF reviews (Text Table 2 and the Supplement to CR/2023/266). The primary fiscal deficit declined to 0.6 percent of GDP (FY2021/22: –1 percent of GDP) as the tax shortfall was contained at 1 percent of GDP.[6] As a result, unpaid bills were lower than estimated (0.7 percent of GDP) following the authorities' efforts to sustain domestic resource

[5] At a quarterly frequency, Kenya publishes supply-side national accounts statistics.

[6] The tax shortfall in FY2022/23 reflected several factors, including changes in the macroeconomic conditions, and persistent difficulties in mobilizing resources to timely execute budgeted spending. The latter in turn affected tax collection because it led to delays in transferring resources (including for wages) to counties and public sector institutions as well as in advancing projects, which together had a direct impact on collection of PAYE and indirect taxes. The change of management at Kenya Revenue Authority (KRA), starting in early 2023, may have also contributed to a possible weakening of tax compliance.

mobilization since April 2023. Preliminary data through end-October suggest a gradually improving fiscal performance in FY2023/24 although data on tax collections continue to lag target, partly due to weak economic activity (Text Table 3, MEFP¶5). Parliament approved in November the Supplementary I FY2023/24 Budget. The authorities submitted to Parliament the amendments to the tax laws on December 15, which introduced tax policy and administrative measures of 0.9 percent of GDP (including the 0.4 percent of GDP committed at the time of the fifth EFF/ECF reviews, end-October 2023 SB, MEFP¶5–6), to offset the tax underperformance in FY2022/23 and the first five months of FY2023/24 (Text Table 4).[7] They also introduced new non-tax measures for 0.3 percent of GDP. These measures are needed to ensure prospects of meeting the FY2023/24 fiscal targets, while diligently prioritizing clearance of unpaid bills from FY2022/23 to avoid incurrence of arrears (MEFP¶17 and TMU¶28).

Text Table 2. Kenya: FY2022/23 Fiscal Outturn[1/]

(In percent of GDP, unless otherwise indicated)

	Supp. II Budget	5th Review Supplement	Prel.
1. Resources INFLOWS (on cash basis)	**25.2**	**24.3**	**23.8**
Revenues	17.4	16.4	16.5
Taxes	14.0	13.1	13.2
Non-taxes	3.4	3.4	3.3
Grants	0.3	0.3	0.2
Borrowing	7.6	7.6	7.1
Foreign disbursements	3.9	3.9	3.5
Domestic (net of repayments)	3.7	3.7	3.5
2. Resource OUTFLOWS (on cash basis)	**25.2**	**25.3**	**24.4**
Primary expenditure	18.8	18.8	18.0
Current	14.9	14.9	14.5
Capital and net lending	3.9	3.9	3.5
Debt service	6.4	6.5	6.5
Foreign	2.7	2.7	2.7
Interest payments	1.1	1.1	1.1
Repayments	1.6	1.7	1.7
Domestic (interest payments)	3.7	3.8	3.7
3. Resource gap (3 = 1 - 2)	**0.0**	**-1.0**	**-0.7**
4. Financing of resource gap	**0.0**	**1.0**	**0.7**
Unpaid bills		1.0	0.7
Memorandum:			
	(In billions of Kenyan shillings)		
Tax collection	*1,999*	*1,865*	*1,887*
Primary balance	*-163*	*-152*	*-83*

Text Table 3. Kenya: Recent Fiscal Developments

(In billions of Kenyan shillings)

	FY2022/23	FY2023/24	
	June	October	June
	Prel.	*Est.*	*Proj.*
Revenues and grants	**2,384**	**831**	**3,070**
Tax revenue	1,887	665	2,428
Nontax revenue	474	162	595
Grants	23	4	47
Expenditure and net lending	**3,221**	**892**	**3,833**
Interest payments	687	248	868
Other current spending	2,040	545	2,221
Development and net lending	494	99	744
Overall balance including measures (cash basis, incl. grants)	-800	-61	-763
Primary balance incl. grants	**-83**	**187**	**105**
Financing	770	36	763
Net foreign financing	268	-32	277
Net domestic financing	502	68	486
Memorandum:			
QPC on tax collection	2,035		2,428
QPC on the primary balance	-158		105

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

[1/] The 5th review column refers to the data presented in the Supplement to the 5th review Staff Report.

[7] The amendments include 0.4 percent of GDP in tax policy measures and 0.5 percent of GDP in tax administrative measures (MEFP¶7).

Text Table 4. Kenya: Revenue Measures in FY2023/24
(In percent of GDP)

Revenue item	Type of measure	FY2022/23 (A)	2023 Finance Act (B)	Amendments to tax laws agreed at the 5th EFF/ECF reviews (C)	Estimated tax performance at end-December 2023 (D)	New amendments to offset tax shortfall at end-December 2023 (E)	New non-tax measures to improve primary balance compared to 5th EFF/ECF reviews (F)	FY2023/24 (G=A+B+C+D+E+F)
Revenue		**16.5**						**18.7**
Tax revenue		13.2	1.4	0.4	-0.5	0.5		15.1
	Tax policy measures 1/		*0.9*	*0.2*		*0.3*		
	Tax administrative measures 2/		*0.4*	*0.2*		*0.2*		
Nontax revenue		3.3	0.1	0.0			0.2	3.7
	Nontax measures 3/		*0.1*	*0.0*			*0.2*	

Sources: Kenyan authorities; and IMF staff estimates.
1/ Column B: includes custom taxes agreed at the EAC level. Column C: measures include the adoption of a motor vehicle circulation tax, removal of several exemptions on interest income, reduction of tax expenditures on VAT and import duties; and increases in excise rates for money transfers and telecommunication data services.
2/ Column B: includes improvements in the enforcement of VAT; enhanced collection of debt under dispute; completion of audits on ongoing cases; the strengthening of taxation at the source for financial sector; and improvements of custom declaration.
3/ Column C: includes measures to improve the primary balance includes fees and charges related to immigration and citizen services and land ownership transactions.

- The real exchange rate has depreciated to a five-year low, while the interbank FX market remains dormant (Text Figure 5). Spreads in the bank-client market remain large, despite some tightening recently, on the back of strong excess dollar demand, partly reflecting increases in FX deposit rates (Annex V).[8] The CBK issued a statement of its adherence to the global FX code in June 2023 (MEFP commitment). Recently, the CBK announced implementation of an electronic matching system in the interbank FX market, removed the 20-cent spread limit in this market, clarified that FX intermediaries are free to negotiate the market clearing exchange rate, and made other policy changes to facilitate price discovery, which are expected to revive the interbank FX market (MEFP¶50).[9]

- Domestic financing conditions have tightened since the fifth EFF/ECF reviews. The front end of the treasury yield curve has moved up amid tighter liquidity conditions, higher demand for 91-day T-bills, limited external inflows in the first half of FY2023/24, and perceived uncertainty surrounding financing of the June 2024 Eurobond maturity (Text Figures 6 and 7).[10] In August, the CBK introduced a new interest rate corridor around the policy rate to guide the overnight interbank rate and lowered the premium charged for its discount window.[11] A Central Securities Depository (named DhowCSD) came live in July to help improve operational efficiency in domestic money and debt markets (MEFP¶51).

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[8] The US$/Ksh exchange rate has depreciated by 20.4 percent y/y (as of December 21, 2023) and the real effective exchange rate by 15.8 percent y/y (as of November 2023). Kenya's *de facto* exchange rate arrangement is classified as crawl-like.

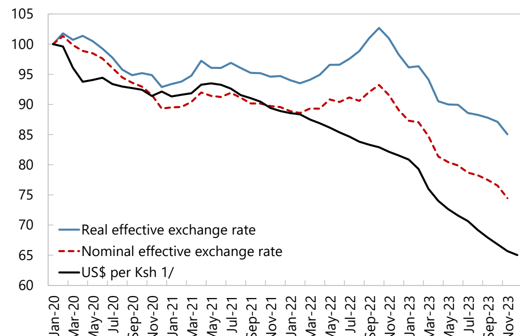
[9] Other measures include a reduction in the minimum lot size in the interbank FX market; a daily transaction limit per customer on FX selling by money remittance providers to route more transactions through the banks; and the Governor seeking regular market feedback on reforms.

[10] Since April 2023, only the 91-day T-bill has been consistently overbid at the weekly auctions.

[11] See the CBK's August Press Release.

Text Figure 5. Kenya: Exchange Rates

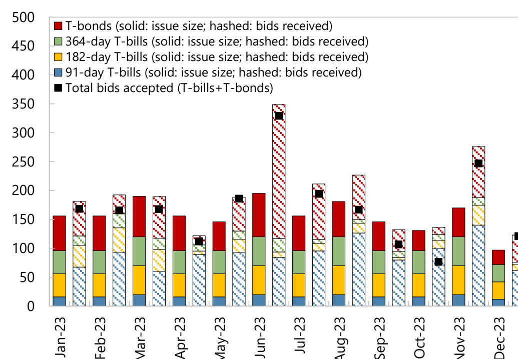
(Jan. 2020=100; upward = appreciation of shilling)



Sources: Central Bank of Kenya; and IMF, *Information Notice System* database.
1/ As of December 21, 2023.

Text Figure 6. Kenya: Treasury Auctions

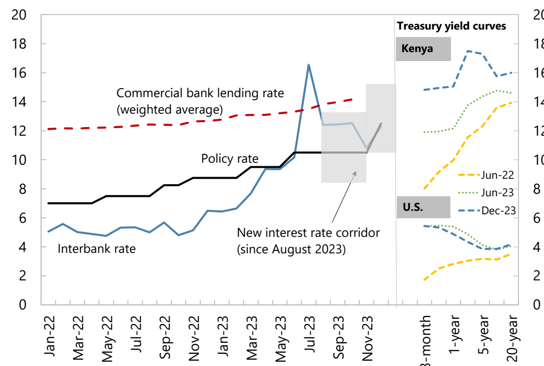
(In billions of shillings; as of December 21, 2023)



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

Text Figure 7. Kenya: Interest Rates

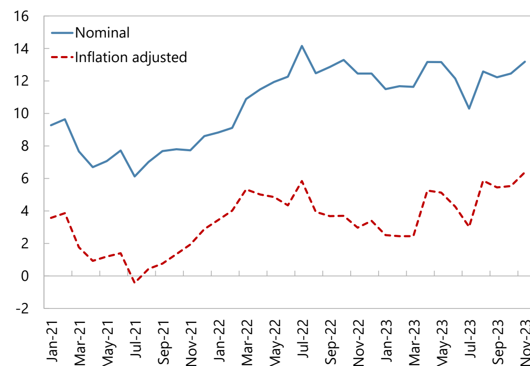
(In percent; as of December 21, 2023)



Sources: Kenyan authorities; and Haver Analytics.

Text Figure 8. Kenya: Private Credit

(y/y percent change; as of November 2023)



Sources: Kenyan authorities; and IMF staff calculations.

- The banking sector remains profitable, but credit and market risks are elevated (MEFP¶53 and Table 5). Profitability declined by 4.8 percent y/y in September 2023 due to increased provisioning, but remains strong, especially in Tier-1 banks, with significant contributions from FX business. Capital and asset quality indicators have worsened since end-2022, with marked increase in nonperforming loans (NPLs), in the face of rising interest rates and dollar shortages.[12] While the aggregate liquidity ratio remains high, several banks are relying on the CBK's discount window.[13] Private credit growth remained resilient at 6.4 percent y/y in real terms in November 2023, with strong growth in manufacturing, transport and communication, trade, and consumer durables sectors (Text Figure 8).

[12] The reasons for the shortages remain not fully clear but may include high demand for dollars due to expectations of continued depreciation and the general U.S. dollar shortage in the region.

[13] Banks with liquidity deficiency or thin buffers relative to prudential requirements accounted for 3 percent of total banking assets, but 20 banks accounting for 62 percent of asset base were accessing the CBK's discount window as of end-September 2023. The secondary market for government securities has dried up, leading some banks with comfortable liquidity ratios to also rely on the discount window.

PROGRAM PERFORMANCE

6. The EFF/ECF program implementation has been mixed, reflecting broadly satisfactory adherence to the quantitative targets but delays in the structural benchmarks (SBs). All but one end-June 2023 quantitative targets were met, while one continuous performance criterion was missed. The seven June–October 2023 SBs were not met, but six of them were implemented with delays (MEFP¶12 and MEFP Tables 1 and 2).

- The end-June 2023 quantitative performance criteria (QPCs) on the primary fiscal balance, net international reserves, new domestic debt guarantees by the central government, and present value (PV) of contracting or guaranteeing new external debt were met. However, the QPC on tax collection was missed, albeit by a smaller margin than anticipated at the time of the fifth EFF/ECF reviews. The approved FY2023/24 Budget included additional tax measures beyond what was originally programmed (CR/2023/266). Given the significant tax shortfall in FY2022/23 with carryover implications for FY2023/24, and continued underperformance through end-November, albeit improving, the authorities in December submitted to Parliament additional tax measures to ensure the June 2024 tax target under the Budget is achievable (¶5 and MEFP¶7).
- Both the end-June 2023 indicative targets for social spending and exchequer requests outstanding for 90 days or more were met.
- The program's continuous conditionalities were met except for the continuous performance criterion on no new external payment arrears which was missed by a small margin of about US$0.51 million (0.0005 percent of GDP) due to operational delays in payment processing. The authorities have settled these amounts. To avoid similar recurrence, they have put in place end-of-day reconciliation of request and actual settlement of debt service payments. In addition, they are strengthening compliance on debt reporting by state-owned enterprises (SOEs).
- The end-June 2023 monetary policy consultation clause was not observed for which a consultation with the IMF Executive Board was completed during the fifth EFF/ECF reviews (CR/2023/266). Inflation has eased inside the target band since July.
- The AML/CFT amendments to address identified shortcomings was submitted to National Assembly in early July (end-June 2023 SB).
- A review of the fuel pricing mechanism was conducted by a taskforce to ensure price decisions are aligned with budgeted resources and the subsequent decision was communicated publicly on December 11 in a joint press release by the Cabinet Secretary (CS) for Ministry of Energy and Petroleum and CS for National Treasury (end-August 2023 SB). The lengthy process in forming the taskforce and the publication of its decision resulted in a delayed implementation of the SB. This reflects the need for internal consultation on how to finance recent domestic price decisions on October 15 and November 15 which resulted in limited but unbudgeted fuel subsidies (about 0.1 percent of GDP over the two price cycles).

- The special audit on supplementary budgeting—including under Article 223 of the Constitution—was completed on November 30 and the report was forwarded by the Auditor General to Parliament on December 4. The delay was in part due to Parliament's decision to broaden the temporal scope of the audit. It was published on December 18 following the legal requirements on publication timeline (end-September 2023 SB).
- A Pending Bills Verification Committee was established in late June with the approval of Cabinet but gazetted in late September with a mandate to formulate a strategy to verify the stock of pending bills outstanding at end-June 2022, address the weaknesses in the Public Financial Management (PFM) systems that led to the accumulation of pending bills, and clear the verified stock of pending bills (end-September 2023 SB). The SB is now being proposed to be reset to end-February 2024 to allow time for the formulation of the strategy.
- Of the three end-October 2023 SBs, a draft Medium-Term Revenue Strategy (MTRS) was approved by the Cabinet in November due to delays in the public consultation process; an Ownership Policy for state corporations (SCs) was approved by the Cabinet and published in November; and the Supplementary FY2023/24 Budget was submitted to Parliament in October, and approved in November, but the submission of amendment to the 2023 Finance Act with additional tax measures to safeguard achievement of the FY2023/24 tax revenue targets was done in December.

7. **Reform measures under the RSF are progressing well (MEFP¶67–72).** The National Framework for Climate Services, the first reform measure (RM1) under the RSF, was approved by Cabinet on November 3, 2023 (MEFP¶67 and MEFP Table 3). This is expected to enhance coordination, facilitation, and collaboration among institutions to ensure the development and incorporation of science-based climate information and prediction into planning, policy, and practices for all climate-sensitive socioeconomic sectors. The authorities anticipate implementation of the reform measure on carbon pricing (RM3) could take longer than previously envisaged but are not requesting any rephasing of the related financing.

OUTLOOK AND RISKS—UNCERTAINTY REMAINS HIGH

8. **The near-term outlook faces heightened downside risks while prospects for the medium-term are positive, supported by strong policies and reforms (MEFP¶10 and Table 1).**

- Real GDP growth is projected at 5.1 percent in 2023 (2022: 4.8 percent) and at 5.0 percent in 2024, improving to 5.3 percent over the medium term. In 2023, positive impacts from a recovery in agriculture and higher contributions from net exports are projected to be somewhat dampened by tight policies. Growth in 2024 is projected to be supported by a recovery in public investment and further expansion in private investment. The medium-term outlook is supported by waning shocks, prudent policies, and dividends from reforms.
- Inflation is expected to move up in early 2024 with staff projections anticipating possibilities of temporary breaches of the upper end of the target band. The authorities agree that fuel inflation (global prices and exchange rate passthrough) will keep inflation around the upper

end of the target band in the near term but expect tighter policies to help guard against the second-round effects and help keep inflationary expectations anchored. Over the medium term, inflation is expected to move toward the center of the target band as global prices ease and a tight fiscal stance is maintained.

- Against the backdrop of real exchange rate adjustment and "higher for longer" global interest rates leading to limited external financing flows, Kenya's CA balance is expected to adjust. The CA deficit is projected to stabilize around 4 percent of GDP in 2023 and beyond. Non-energy imports are projected to have declined in 2023 in response to real exchange rate depreciation and given a slowdown in capital goods imports following the completion of some large infrastructure projects. Recovery in imports over the medium term is expected to be gradual and in line with economic growth. Exports are projected to have underperformed in 2023 due to FX market dysfunction (e.g., through increased transaction costs of securing FX for imported intermediate goods) and softer demand in traditional destination markets but are expected to recover in 2024 as global growth improves and as the impacts of real exchange rate adjustment and reforms take effect. Tourism receipts and remittances are projected to remain robust, supporting the external balance. FX reserves are projected to remain adequate, reflecting a gradual buildup amid adjustments in imports, and supported by official flows and commercial borrowings in 2023 and 2024 and a normalization of capital flows over the medium term.
- Uncertainty is considerable, with risks tilted to the downside (Annex II). A worsening of external financing conditions could complicate the external commercial financing plans and pose risks to the FX reserves path. Kenya faces risk of being grey-listed by the FATF, which could also adversely impact capital inflows.[14] Export underperformance, if not reversed, could undermine external debt sustainability. Adverse weather conditions (e.g., widespread flooding due to El Niño in the near term) and/or a rise in global oil prices could push inflation up and create fiscal spending pressures. Weaker growth would worsen prospects for tax collections. Renewed social discontent due to cost-of-living concerns, weakening of SOE balance sheets, materialization of risks under the new oil importation scheme (¶28), and/or a worsening of the regional security situation pose risks to the fiscal consolidation efforts, exacerbating fiscal and BoP pressures. Elevated credit and market risks could expose weaknesses at some financial institutions. On the upside, stronger agricultural recovery would support growth and lower inflation, while earlier than expected bond market access would ease BoP pressures. Further progress with reforms that help improve the business environment, export competitiveness, inclusivity, and that support a market and rules-based economy would buttress the upside potentials of the economy. Successful conclusion of ongoing trade and investment negotiations with the U.S., the EU, and regional trade partners would provide better market access and attract much needed investments, boosting export competitiveness.

[14] Kida, M. and Paetzold, S. (2021) report that "grey-listing results in a large and statistically significant reduction in capital inflows.", see IMF Working Paper No. 2021/153.

POLICY DISCUSSIONS—REINFORCING CREDIBILITY OF POLICIES AND STRENGTHENING BUFFERS

To reduce the fiscal and external pressures and rebuild buffers, continued steadfast implementation of a package of mutually reinforcing policies and reforms remains the key to cement macroeconomic stability, maintain debt sustainability, anchor market confidence, and bolster Kenya's medium-term prospects. To this end, program discussions and the Article IV consultation focused on i) policies to secure a stronger fiscal primary balance path, grounded in domestic revenue mobilization and spending rationalization with the aim of first stabilizing and subsequently putting the debt ratio on a declining path to achieve a PV of overall public debt/GDP of 55 percent by 2029; ii) strengthening public financial and fiscal risk management; iii) tighter monetary policy stance for price stability amid exchange rate depreciation while fast-tracking FX market reforms to ensure external sustainability and building up of external buffers; iv) safeguarding financial stability; and v) advancing policies for inclusive growth, climate related reforms, boosting export competitiveness, and strengthening governance and anti-corruption framework.

A. Growth-Friendly Fiscal Consolidation to Preserve Debt Sustainability

9. Kenya faces a significant increase in its borrowing cost that, if unmitigated, would worsen the outlook for debt sustainability risks in FY2023/24 and beyond. Kenya's 2023 Budget Review and Outlook Paper (BROP) foresaw that interest payments could increase by more than a cumulative 1.4 percentage points of GDP during FY2023/24–FY2024/25, owing to exchange rate depreciation, higher interest rates, and continuation of the recent shortening in the average maturity of domestic debt.[15]

10. The authorities agree that additional policy measures will be needed to mitigate the deterioration in the fiscal balance due to the rising interest payments and safeguard debt sustainability (MEFP¶15 and DSA). To this end, they will offset the impact of higher interest payments (primarily on the external debt) on the fiscal balance by improving the primary balance target by an additional cumulative 1.2 percentage points of GDP over FY2023/24–FY2024/25 compared to the fifth EFF/ECF review levels. This will help stabilize the debt/GDP ratio in 2024 and put it on a downward trajectory thereafter (Tables 2a and 2b) with a view to achieving Kenya's new debt anchor of 55 percent overall debt/GDP in PV terms by 2029 (DSA Table 4).

11. The National Treasury (NT) will submit to Parliament a Supplementary II FY2023/24 Budget along with revenue measures to contain the deficit (MEFP¶16). The Supplementary II is expected to be submitted by end-March 2024 (*proposed SB*) targeting a primary surplus of 0.7 percent of GDP (compared to 0.4 percent under Supplementary I; Table 2b). The improvement in the primary balance, which is warranted to partly offset the higher interest costs (¶9) and maintain

[15] The BROP document sets out the macroeconomic projections for the medium term. The 2023 BROP forms the basis for the development of the Budget Policy Statement (BPS) that will detail the authorities' policies and initiatives over the medium term. The 2024 BPS is expected to be submitted to Parliament by February 15, 2024.

the overall fiscal deficit close to the level in the approved FY2023/24 budget, will be achieved through a combination of revenue and spending measures. These include increases in non-tax revenues (i.e., fees and charges) by about 0.2 percent of GDP (half-year impact), adopted at end-December 2023, and expenditure saving of about 0.2 percent of GDP (half-year impact) via a careful rationalization and execution of the investment portfolio—particularly related to the slow-moving projects. In the interim, the authorities have committed to execute the spending appropriations under the Supplementary I, prudently and consistent with the upwardly revised FY2023/24 primary surplus target of 0.7 percent of GDP.

12. The FY2024/25 Budget will seek to further strengthen the fiscal adjustment by delivering an overall fiscal deficit below 4 percent of GDP (Table 2b, MEFP¶18). By end-April 2024 (*proposed SB*), the authorities are expected to submit to Parliament a FY2024/25 Budget proposal that envisages a larger improvement in the overall fiscal deficit (1.2 percentage points of GDP). This is predicated on achieving a higher primary surplus of 1.7 percent of GDP (compared to 0.9 percent of GDP projected at the fifth EFF/ECF reviews), to contain the deficit at 3.5 percent of GDP amid exchange rate depreciation and interest costs pressures on the debt level. On the revenue side, the budget will build on the adoption of tax measures envisaged under the first year of implementation of Kenya's MTRS (¶17, and Box 1) and reflect the full-year revenue impact of the non-tax measures introduced in mid-FY2023/24 (¶11) as well as a broadening of their scope (estimated non-tax revenue yield of 0.3 percent of GDP). On the expenditure side, the budget will seek to accompany the ongoing efforts to contain expenditures for wages (MEFP¶27) and transfers—including related to public sector entities and subsidies—and to improve the efficiency of public expenditures with new initiatives (MEFP¶¶26, 28, and 29). The latter include achieving new spending saving of about 0.6 percent of GDP by containing recurrent expenditures—including related to travel, allowances, and hospitality—and further rationalizing the portfolio of non-priority projects in line with the recommendations under the World Bank's 2020 Public Expenditure Review.

13. For FY2025/26 and beyond, the authorities' fiscal strategy is centered on firmly reducing debt vulnerabilities and achieving the newly approved debt anchor by 2029 while protecting high-priority service delivery programs. This will require maintaining the fiscal primary balance above its debt-stabilizing level over the medium term to achieve Kenya's debt anchor of 55 percent overall debt/GDP in PV terms by 2029. The authorities intend to do so by carrying forward ongoing efforts to broaden the tax base and improve tax compliance while promoting equity and fairness in the tax regime and containing recurrent expenditures (MEFP¶20). In this regard, a timely and diligent implementation of the MTRS (Box 1 and ¶17) will be essential to achieve the program objective of bringing Kenya's tax-to-GDP ratio back to pre-COVID-19 levels. In addition, it will require strong monitoring, preferably by an independent institution (fiscal council), which will necessitate expanding the current functions of the Parliamentary Budget Office, and an operational framework with a well-defined escape clause and correction mechanism.[16]

[16] Many countries have established fiscal councils to reinforce the government's commitment to sustainable public finances. In Kenya, the Parliamentary Budget Office (PBO) serves a similar purpose. See IMF Fiscal Council Database: 2021.

14. Staff analysis suggests that Kenya was the only country in the Eastern African Community (EAC) that experienced a protracted decline in its tax-to-GDP ratio since 2014.[17] While such a decline is likely to reflect a confluence of factors, the frequent introduction of measures to narrow the base of key taxes (e.g., CIT, PAYE, VAT) may have played an important role in explaining Kenya's tax performance vis-à-vis that of other EAC economies, despite the country's efforts to strengthen its tax administrative procedures. The authorities agreed with the broad messages of staff's analysis and reiterated their commitment to the MTRS, which they see as providing Kenya with a coherent framework to identify mutually supportive tax policy and administrative measures with a view to widen the tax base and mobilize domestic revenues, while ensuring equity and fairness (Box 1).

15. The authorities are working toward enhancing predictability of financing and institutional arrangements for social protection delivery systems. Kenya's National Safety Net Program (NSNP) supports 1.4 million direct beneficiaries and approximately 5 million indirect beneficiaries through cash transfers.[18] Reforms under the World Bank Development Policy Operation (DPO), approved in 2023, aim at ensuring timely, secured, and predictable spending on social protection under the NSNP cash transfers to all beneficiaries enrolled in the program.[19] The authorities are exploring, with the support of the World Bank, to use the Hunger Safety Net Program (HSNP)—one of Kenya's key safety net instruments to respond to recurrent droughts and other climate induced shocks—to distribute cash assistance to households affected by recent El Niño flooding in eight northern counties. In this context, the World Bank is working with the authorities on technical aspects of triggers to facilitate the expansion of emergency cash transfers under HSNP's "shock-responsive" component to include those affected by flooding. Currently, it can only disburse temporary cash assistance to households affected by drought.[20] The World Bank is also exploring other areas of social protection program reform under upcoming DPO (expected in early 2024), including the obligatory use of a recently developed digital socio-economic database of poor and vulnerable population (Enhanced Single Registry, ESR) and the indexation of cash transfers to inflation and other economic indicators. The ESR will objectively identify beneficiaries and improve

[17] See 2024 Selected Issues Paper on "*Benchmarking Tax Performance in Kenya*".

[18] NSNP Program is an umbrella term for four social assistance cash transfer programs which include: 1) the Cash Transfer for Orphans and Vulnerable Children (CT-OVC); 2) the Older Persons Cash Transfer (OPCT); 3) the Persons with Severe Disability Cash Transfer (PwSD-CT); and 4) the Hunger Safety Net Program (HSNP) comprising both basic and shock responsive scalable cash transfers targeted to poor and vulnerable households in counties that are most vulnerable to recurrent droughts. Currently three out of these programs provide a monthly benefit of Ksh.2,000 per household per month.

[19] In March 2023, the Cabinet designated the National Safety Net Program (NSNP) expenditures as non-discretionary spending (as is the case for wages and salaries for public servants). This designation supports adequate allocation of budget for NSNP, minimizes the risk of uncertainty arising from use of supplementary grants to fill financing gaps, and institutes a system of automated release of funds to the NSNP implementers (State Department of Social Protection and the National Drought Management Authority) to effectively manage their operations and hence pay beneficiaries in a timely manner.

[20] Emergency cash transfers under HSNP's "shock-responsive" component can disburse temporary cash assistance to households affected by climate shock (drought) financed from the standard investment project financing (IPF) component of Kenya Social and Economic Inclusion Project (KSEIP). There is currently €8.8 million available in the Kenya Social and Economic Inclusion Project to finance any qualifying emergency cash transfers under HSNP through December 2024.

transparency and efficiency of the program. A World Bank analysis suggests that by raising support per household per month to about Ksh.3,000 (one-quarter of average monthly expenditure by poor households), overall social assistance could be higher by 0.1 percent of GDP which could be financed through revenue recycling (i.e., using revenues raised from taxes, such as carbon taxes).[21] Potential areas of reforms include increasing the proportion of NSNP beneficiaries who come from the bottom 40 percent of the consumption distribution from 59 to 80 percent and to increase coverage of female-headed households. Under the EFF/ECF program, the authorities are committing to target higher social spending for end-June 2024 than at the fifth EFF/ECF reviews.

16. Kenya's public debt is assessed to be sustainable but remains at high risk of distress. (DSA). In line with staff's earlier recommendations, the authorities, with the approval of Parliament, have replaced the nominal debt limit with a debt anchor of 55 percent overall debt/GDP in PV term. They expect to reach it by 2029 (MEFP¶31). The baseline PV of external debt/GDP remains below its threshold of 40 percent throughout the projection period, while PV of overall debt/GDP falls below its threshold in 2029. External debt service burden indicators remain elevated in the near term due to the repayment profile and higher borrowing costs but are on a declining path as gross financing needs moderate over the medium term. The DSA suggests that Kenya's external debt is vulnerable to export and exchange rate shocks, while the overall debt to primary balance and natural disaster shocks. The authorities agree with the DSA, remain committed to containing debt build up and mitigating risks to the debt outlook.

B. Strengthening Public Resource Management and Reducing Fiscal Risks

17. Kenya's first MTRS that was recently approved by the Cabinet aims to durably improve revenue collection while enhancing tax fairness (MEFP¶¶20 and 23). The MTRS, prepared with technical assistance (TA) from the Fund, covers the period FY2024/25–FY2026/27 and includes a comprehensive package of policy and administrative measures to increase revenues by about 5 percentage points of GDP while promoting equity and fairness in the tax regime (Box 1).[22] Implementation is expected to start in early 2024 and be subject to a formal monitoring process at the ministerial level to ensure timely resolution of any emerging issues with the adoption of the MTRS (*proposed end-February 2024 SB*). In this regard, the authorities have developed a well-sequenced implementation matrix for the MTRS measures and intend to include in the 2024 Finance Bill all revenue measures envisaged under the first year of the MTRS (MEFP¶23). The Finance Bill will be submitted to Parliament by end-April 2024.

18. The authorities are making progress in strengthening PFM systems to enhance budget credibility and address leakages (MEFP¶29). The NT has made progress in strengthening budget

[21] Use of a quarter of expenditure is a benchmark in international literature on cash grants. See Cash Transfers–Past, Present and Future: Evidence and Lessons Learned from the Transfer Project (unicef-irc.org).

[22] Staff's baseline conservatively assumes a lower yield of the MTRS measures during its implementation period. In addition, the baseline reflects the early adoption of some MTRS measures in FY2023/24—such as the increases of the VAT on fuel products, the removal of exemptions on interest income, and a motor vehicle circulation tax (CR2023/266), which are expected to account for about 0.8 percent of GDP.

execution through multi-year commitments, digitalization of PFM systems, which will allow better management of public investment projects, and adoption of an e-procurement system. The NT is also undertaking a review of the institutional objectives of existing extrabudgetary units with the view to rationalizing them and eliminating duplication to generate budgetary saving without compromising public services. Moreover, following the special audit of supplementary appropriations under article 223 of the Constitution, the NT is exploring possibilities to better define in the context of the 2012 PFM Act the events that can trigger the use of article 223. Following the establishment of an inter-ministerial committee to manage the stock of pending bills outstanding at end-June 2022, the NT is developing a strategy to validate the stock, address the weaknesses in the PFM system that contributed to the accumulation of pending bills, and clear them in consistent with the fiscal consolidation path envisaged under Kenya's fiscal program (*end-September 2023 SB, reset to end-February 2024*). The scope of the pending bill strategy is expected to be broadened to all exchequer obligations, including tax refund claims.

19. The authorities agree on the need to sustain efforts to align domestic fuel pricing decisions with budgeted resources (MEFP¶30). Specifically, the Energy and Petroleum Regulatory Authority (EPRA) will seek confirmation from the NT and the Ministry of Energy and Petroleum (MEP) of the availability of resources for price stabilization purposes before announcing the prevailing domestic fuel prices every 15th of the month. In the event a decision is taken to stabilize prices beyond what can be financed by budgeted resources, the NT will be required to indicate the sources of additional financing (e.g., budget reallocations, borrowing) and EPRA to communicate the financial implications of the domestic price decisions. In addition, the NT and MEP will review by end-March 2024 the governance structure of the Petroleum Development Fund with a view to ringfencing resources budgeted for price stabilization and improving transparency of their management (*proposed SB*).

20. Financial operations outside of the national government but within the public sector are considerable, presenting potential fiscal risks. An estimated public sector balance sheet as of end-June 2023 reveals significant imbalance between liabilities and financial assets, leaving the Kenyan public sector vulnerable to external shocks (Annex IV).[23] Moreover, a substantial portion of public sector assets, about 67 percent of GDP, is managed by State Corporations (SCs) and Semi-Autonomous Government Agencies (SAGAs) but their contributions to the budget (dividends and taxes) were very small in FY2022/23. Many of these entities reported losses in FY2022/23 (0.7 percent of GDP), while profits from other entities, excluding the CBK and pension funds, reached only 0.6 percent of GDP.

21. Extraordinary budget support to Kenya Airways (KQ) and Kenya Power and Lighting Company (KPLC) have been contained but risks from these entities remain (MEFP¶¶36 and 38–43). In the past two years, the authorities remained well within the programmed envelope (cumulative 1 percent of GDP over FY2021/22–FY2022/23) for extra-ordinary budget support to SOEs and government-linked companies (outturn: 0.3 percent of GDP) and, as of November 2023, have not provided any new direct budget support to either KQ or KPLC in the preceding year. Both

[23] Also see 2024 Selected Issues Paper on "*Assessing Public Sector Balance Sheet Vulnerabilities*".

these entities reported operational profits in the first six months of 2023, but incurred losses due to exchange rate depreciation. KPLC has begun implementing the Cabinet-approved action plan to help restore its financial health, and commitments under a World Bank-supported project, with its shareholders approving private sector's representation in its Board of Directors. The authorities agree on the need for a viable strategy for KQ and have committed to have it approved by the Cabinet by end-April 2024 (*proposed SB*). The novation of KQ's guaranteed external debt, for which the authorities took up the servicing obligations last year following a call on the guarantee, has been completed. The authorities agree to continue with the least-cost approach to the exchequer in providing any support to the SOEs.

22. Progress on governance reforms and oversight at the SCs is advancing, albeit at a slower pace (MEFP¶44).

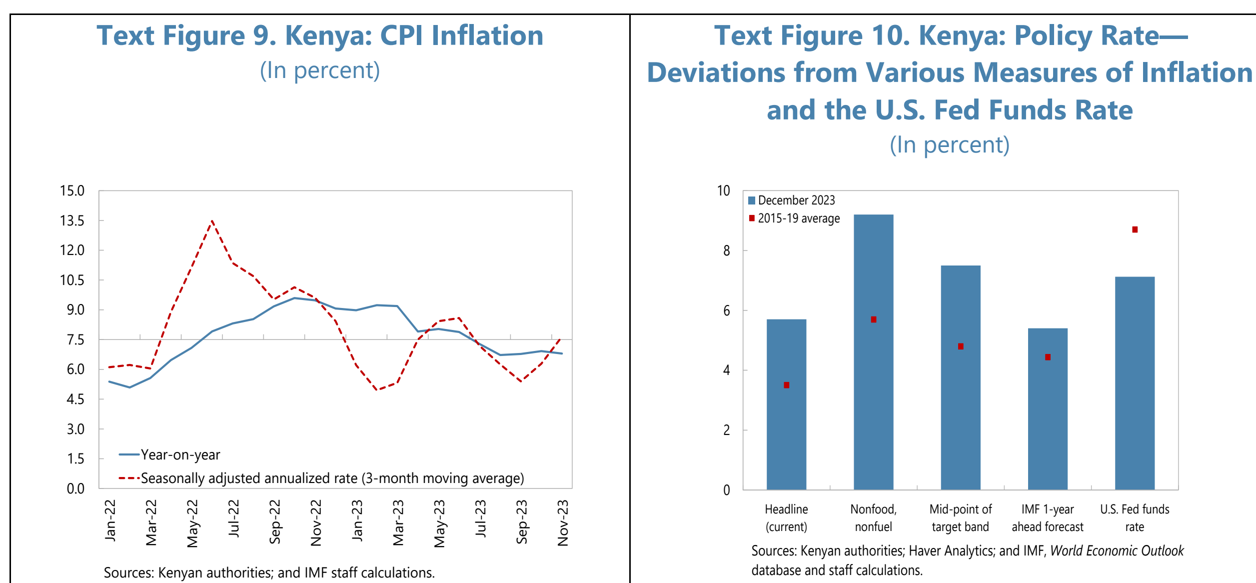
- The Ownership Policy for commercial SCs that was published in November 2023 (*end-October SB*) details a new governance architecture and legal ecosystem, following international standards, to improve performance and transparency, including centralizing ownership and oversight functions in NT, outlining the government's rationale for state ownership, strengthening Boards of Directors' mandate while safeguarding them from political influence and establishing guiding principles for SCs to undertake public service obligations.
- The authorities are finalizing an updated inventory and new classification of SCs that will be approved by the Cabinet and published by end-January 2024 (*proposed SB*).
- To anchor the new ownership arrangements and other measures outlined in the Ownership Policy, SOE Blueprint and SOE Strategy, the authorities will prepare, with Fund TA, and submit to Parliament draft legal amendments by end-May 2024 (*proposed SB*).
- The authorities plan to submit to the National Assembly regulations providing for more effective oversight of government investment in SCs by end-June 2024.
- In addition, the authorities also plan to conduct and publish a comprehensive assessment of the national government's continued involvement in SCs and government-linked corporations (*end-October 2024 SB*); continue expanding publication on NT's website of SCs' financial statements and annual reports, as well as the Annual Performance Evaluation Reports; strengthen the analytical framework for financial evaluation and risks from SCs; and undertake financial evaluation for fifty SCs using their FY2022/23 audited accounts and report to the Fiscal Risk Committee (*end-June 2024 SB*).

23. Following publication of the new Privatization Act in October 2023, the authorities have started preparing for privatization of some SOEs (MEFP¶46). The authorities are currently working on a five-year privatization program under this law and plan to submit it to Parliament by end-December 2023.[24]

[24] On November 27, the authorities proposed a list of eleven SOEs and government-linked corporations for privatization in accordance with section 21(1) of the Privatization Act, 2023. However, the High Court has since issued a suspension until February 6, 2024, on implementing this section and/or any decisions made pursuant to it.

C. Enhancing the Effectiveness of Monetary Policy Framework

24. The monetary policy stance was further tightened to maintain price stability and ensure external sustainability. Headline inflation has been sticky in the upper end of the target band since July. On a seasonally adjusted annualized basis, inflation has been going up recently (Text Figure 9). With FX and global fuel price developments posing risks to near-term inflationary expectations, the CBK has further tightened the policy rate from 10.5 percent to 12.5 percent in December 2023, bringing the ex-ante real policy rate above and the differential with the nominal U.S. policy rate closer to their respective pre-pandemic five-year averages (Text Figure 10). Staff estimates exchange rate passthrough to inflation between 0.2 and 0.4 percentage points over a year for a one percent change in the exchange rate, broadly in line with the authorities' own estimate. Staff also finds evidence of exchange rate depreciation having somewhat larger passthrough than appreciation.[25]



Text Figure 9. Kenya: CPI Inflation
(In percent)

Sources: Kenyan authorities; and IMF staff calculations.

Text Figure 10. Kenya: Policy Rate—Deviations from Various Measures of Inflation and the U.S. Fed Funds Rate
(In percent)

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

25. The CBK took further steps in modernizing the monetary policy framework (MEFP¶51). In August, the CBK introduced a new interest rate corridor (±2.50 percent) around the policy rate to further strengthen their monetary policy implementation framework. As of early December, however, the interbank rate, the operating target, had consistently deviated from the policy rate on most days since the introduction of the corridor, potentially weakening the signaling impact of policy rate changes. They intend to improve their liquidity forecasts to enhance the efficiency of the new framework. Transmission of recent monetary policy rate hikes to bank lending rates remains low to date. To this end, the authorities expect implementation of the risk-based loan pricing models across the banking sector will help. The launching of DhowCSD and other recent

[25] See 2024 Selected Issues Paper on "*Quantifying Exchange Rate Passthrough to Inflation*".

policy changes are expected to catalyze interbank repos, potentially reducing market segmentation, and promote deepening of the domestic debt market.[26]

D. Tackling Financial Sector Vulnerabilities and Improving the Functioning of the FX Market

26. Banks' shares of FX deposits and liabilities continue to rise, and the risk from sovereign-bank nexus remains elevated. The share of FX loans declined somewhat in 2023Q3 but remained higher than a year ago. The risk from sovereign-bank nexus remains elevated with sovereign debt accounting for almost a third of bank assets. The maturity structure of FX borrowing of banks via swaps has shifted to shorter maturities since the easing of rules for FX swaps with non-residents.[27]

27. FX exposures, sovereign-bank nexus, and domestic interconnectedness are key sources of systemic risks (Annex V and MEFP Section G). Banks' sizeable FX and sovereign exposures pose exchange rate and interest rate risks to their balance sheets. Stress tests conducted by the CBK show capital shortfalls in some banks, including up to three Tier-1 banks, in scenarios with large interest rate increases or FX depreciation.[28] These banks have been asked to provide capital restoration plans and the CBK is monitoring their implementation and encouraging continued adequate provisioning. With support from Fund TA, the CBK is developing Internal Liquidity Adequacy Assessment Program Guidelines for banks, which will include FX-differentiated Liquidity Coverage Ratio and Net Stable Funding Ratio as monitoring tools.[29] Asset quality improvements remain contingent on the resolution of FX market dysfunction and government pending bills, and on the economic recovery. The authorities view the banking sector as stable and resilient and that the increase in FX deposits is largely a result of the deposits (escrow) from the government–to–government (G2G) oil import scheme and the regional expansion of the banking sector rather than an expectations-driven demand for FX deposits. They consider credit, interest rate, and cybersecurity risks in a period of rapid digitalization as the key risks facing the banking system.

28. The G2G oil import scheme continues to evolve but potential risks, including FX market segmentation, remain. The scheme, which was initially for 9 months, has been extended

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[26] Other recent policy changes include lowering of the premium charged over the policy rate for the CBK discount window from 600 basis points to 400 basis points (CBK Banking Circular No. 5 of 2023) and lowering of haircuts applicable to government securities used as collateral for money market transactions (CBK Banking Circular No. 6 of 2023).

[27] CBK Banking Circular No. 7 of 2023; dated August 29, 2023. The circular reduced the minimum tenor of FX borrowing from nonresidents via swaps to 6 months from 1 year and allowed EAC residents to be eligible for overnight FX swaps with domestic banks (for swaps in which the latter borrow FX).

[28] See Kenya Financial Sector Stability Report, September 2023, for details. Fund staff identified some scope for strengthening the stress tests used by the CBK, including providing essential information about the underlying models, better accounting for interlinkages and passthrough, and assessing the materiality of capital shortfalls in relation to GDP, sovereign indebtedness, and ability to finance.

[29] Currently, an unremunerated cash reserve ratio of 4.25 percent applies to a bank's total domestic and FX deposit liabilities and is filled in shilling. There are no additional capital requirements (higher risk weights) on FX loans, or exposure caps on FX loans (other than indirectly via net open FX position limit).

for another 12 months to December 2024 (MEFP¶73), including negotiating some favorable costing terms.[30] By mid-November 2023, oil imports under the scheme amounted to about US$3.7 billion and letters of credit worth of over US$784 million were settled. Actual monthly average import volumes fell short of the monthly minimums agreed under the G2G scheme, owing to lower demand from Kenyan domestic and regional markets. Staff continues to monitor the risks associated with this scheme, including potential segmentation of the FX market and implications for banks' FX risks, and disorderly exit from the scheme in the absence of an exit strategy.

29. The authorities committed to greater exchange rate flexibility and supporting buildup of official reserves (MEFP¶50 and ¶5). Kenya's external position is broadly in line with medium-term economic fundamentals and desirable policies (Annex III). The estimated CA and real exchange rate gaps in 2023 are lower than those in 2022, reflecting the external adjustments that have taken place. Going forward, policy reforms and adjustments envisaged under the program will further support Kenya's external position, ensuring that gross FX reserves remain above the required adequacy levels. Greater exchange rate flexibility and addressing FX market distortions would help keep the external position in balance.

E. Bolstering Medium-Term Prospects: Strengthening Exports and the Governance and Anti-Corruption Framework

30. Enhancing Kenya's export competitiveness will be key to improving external buffers and debt sustainability. Kenya's export competitiveness and complexity remain low, with its exports-to-GDP ratio nearly halving in the past decade (Annex VI). Per capita exports and complex exports have grown modestly since the 1980s but have since diverged from East Asia Emerging Market exports levels, while regional peers (e.g., Ghana, Rwanda, and Tanzania) have narrowed their gaps with Kenya's per capita complex exports. On services exports, per capita growth has been stronger and are at higher levels than in regional peers. In addition to enhancing exchange rate flexibility, improving government effectiveness, regulatory quality, and better governance and anti-corruption framework along with improvements in trade policy and information technology infrastructure could help boost Kenya's export competitiveness. Securing rapid progress in ongoing trade and investment negotiations with large trading partners to unlock market access and attracting foreign direct investments would also help boost export competitiveness. The authorities broadly agreed with the staff analysis and emphasized the focus under their upcoming five-year plan on improving value addition, competitiveness, and market access for Kenya's exports.

31. The authorities are making efforts at strengthening Kenya's AML/CFT framework (MEFP¶¶57 and 66). They are working to complete their high-level AML/CFT action plan to address shortcomings identified in the 2022 Mutual Evaluation Report (MER) by the Eastern and Southern African Anti-Money Laundering Group. In September 2023, the AML/CFT (Amendment) Act 2023 entered into force (submission to National Assembly was an end-June 2023 SB), revising several key pieces of legislation. Amendments introduce broadened powers for AML/CFT supervisors,

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[30] See Box 3 in CR/2023/266 for further details on the scheme.

preventive measures for terrorism financing, and new beneficial ownership-related provisions, including a definition of beneficial ownership and reporting, verification, and vetting requirements. The authorities also gazetted related implementing regulations and conducted several sectoral risk assessments, which will inform the updated National Risk Assessment (NRA). To strengthen risk-based AML/CFT supervision, the CBK separated its prudential and AML/CFT supervisory functions and developed risk-based inspection plans to guide onsite examinations.

32. The authorities are also enhancing beneficial ownership transparency (MEFP¶¶59–60, and 66). They are taking continued measures to increase compliance of companies and public procuring entities with their beneficial ownership publication requirements. To increase companies' beneficial ownership submissions to the e-register, Kenya Business Registration Services (BRS) has contributed to amendments to the regulatory framework on beneficial ownership information, which will also provide AML/CFT reporting institutions and their regulators access to beneficial ownership information and are intended to address legal gaps identified in Kenya's MER. The BRS continues to conduct outreach activities before planned strike-offs of non-compliant companies from the register. To increase compliance among procuring entities, the Public Procurement Regulatory Authority is conducting trainings for procuring entities and has issued two circulars on obligations to uploading awarded contracts containing beneficial ownership information on the Public Procurement Information Portal.

33. Progress in improving the anti-corruption framework is ongoing with mixed outcomes so far (MEFP¶¶62–64). In recent years, the Ethics and Anti-Corruption Commission has made good progress with its asset recovery mandate. However, there are significant identified needs in the area of mutual legal assistance (in particular international cooperation). The dedicated anti-corruption courts have made progress in reducing the backlog of cases. But both the Access to Information regulations and the Conflict-of-Interest Bill, which contains the Asset and Income Declaration provisions, remain to be approved by Parliament.

F. Advancing Climate Objectives Under the RSF Arrangement

34. The implementation of the RSF-supported program is off to a good start (MEFP¶¶67–72 and Table 11).[31] The first reform measure (RM)—adoption of the National Framework for Climate Services— has been completed (MEFP Table 3). The framework will strengthen collaboration among regional and national institutions to improve production and use of climate information services. Other RMs are on track, but some will require TA from the Fund and the World Bank and other development partners. The authorities are not requesting any rephasing of RSF access (Table 7b).

[31] The authorities' 20-month RSF arrangement runs from July 2023 to March 2025, with nine RMs. The RSF arrangement, with an access level of 75 percent of quota (SDR407.1 million), is approved as budget support and phased evenly across the RMs. Kenya's Updated Nationally Determined Contribution (2020) estimated that mitigation and adaptation financing needs are about US$62 billion (about 6 percent of the 2023 GDP per year over 2023–30), of which almost 90 percent would come from international sources. For further details, see Annex III in CR/2023/266.

- *Incorporating climate risks into planning and investment framework*. To include long-term climate scenarios in their fiscal risk statement (RM2) the authorities have requested TA from the Fund, scheduled for January 2024. Similarly, integration of climate change and disaster risk methodology in project appraisal (RM5) is on track and TA is envisaged. Substantial background work has been completed as part of Kenya's development of a Green Growth Index and Sovereign Green Bond Framework. Already some expenditure types have been tagged for climate budgeting (RM8), and will be supported by other RMs, including the green taxonomy and green infrastructure reforms.
- *Mobilizing climate-revenue and strengthening efficiency*. Given the complexity of green taxes, authorities anticipate implementation of carbon pricing (RM3), initially planned by the second RSF review, could take longer than previously envisaged. Adoption of green fiscal incentives in agriculture, water, and land management sectors (RM6) is being fast tracked. The National Green Fiscal Incentives framework, expected to be adopted before end–2023, sets out options for promoting low-carbon, climate resilient, and environmentally sustainable practices. These include carbon taxes, subsidies, ecological fiscal transfers, research grants, and concessional loans. Efforts to approve net metering and open access regulations (RM7) are also well advanced. Draft net metering regulations have been circulated for public consultation with the aim of gazetting the regulations by early 2024. To facilitate open access in the electricity market, the authorities have developed draft regulations with assistance from the World Bank.
- *Enhancing effectiveness of existing frameworks to support climate finance.* As a first step toward developing a green finance taxonomy for Kenya (RM4) and issuing guidelines for climate-related disclosures in the banking sector (RM9), the CBK has completed a review of international experiences and approaches. Together with the European Investment Bank, the CBK has undertaken a diagnostic review of Kenya's existing frameworks, which is expected to be completed by end-June 2024.[32] As part of this work, the authorities have started initial consultations with commercial banks.

35. Beyond RSF implementation, the authorities continue to make progress with other climate change adaptation and mitigation initiatives. Kenya continues to access global climate funds and leverage private climate finance through various channels, including public-private partnerships (PPPs) in renewable energy projects. As part of its COP27 commitments, the authorities are working with the U.K. to fast-track six green investment projects worth approximately US$4 billion, mainly in green energy. In the context of African Carbon Markets Initiative, the authorities revised Kenya's Climate Change Act, 2023, setting out a framework for the creation and regulation of carbon markets. The authorities are also working with development partners on innovative ways to empower communities in the Financing Locally Led Climate Action (FLLoCA) Program (Box 2).

[32] See the press release on the European Investment Bank and the CBK launching an initiative under the former's *Greening Financial Systems Programme*.

36. Kenya seeks to mainstream gender equality in all aspects of climate change responses. The prevalence of women working in the agriculture sector makes them more exposed to climate shocks. In addition, female-headed households tend to have fewer assets and higher rates of poverty, diminishing their adaptive capacity.[33] Women's livelihoods and household roles are often highly dependent on natural resources that are sensitive to climate variability (Annex VII). Access to clean energy and transport is therefore likely to have a significant positive effect on gender equality. Both the Climate Change Act, 2023 and the National Climate Change Action Plan, 2023–27 seek to mainstream gender equality in all aspects of climate change responses. In addition, by giving communities control over climate adaptation choices, the FLLoCA Program could also play a role in promoting gender equality in Kenya.

AUTHORITIES' VIEWS

37. The authorities recognize the urgency of undertaking necessary policy actions against a difficult and uncertain global economic backdrop. They agree that the key to reducing fiscal and external pressures and to building buffers lies in steadfast implementation of a package of mutually reinforcing policies and reforms, as described in detail in the attached MEFP. In this context, while underlining the importance of improving Kenya's tax-to-GDP ratio, they also highlighted the risks of piling up on tax policy measures at a time when cost of living is elevated and economic activities outside the agriculture sector is weak. They consider the plan under the MTRS, which aims at broadening the tax base, promoting fairness in the tax regime, and improving tax administration as critical for the success of a growth-friendly fiscal consolidation. They also agree on the need for tightening budget controls—including through aligning fuel pricing mechanism with budgeted resources, improving PFM systems, and reducing fiscal risks, including by strengthening the monitoring and governance of state corporations. On monetary policy, the authorities agree on being proactive, as also demonstrated in their decisive 200-basis-point December policy rate hike, and maintaining a tightening bias given risks to inflation outlook. They also underscored the importance of a well-functioning interbank FX market and committed to taking further steps (as announced in December). They agree on continued close monitoring of financial sector risks.

38. The authorities view that strong policy actions to address near-term challenges will help bolster Kenya's medium-term prospects. They see upsides to near-term growth from agricultural recovery and its spillover to the rest of the economy. On the medium term, they are optimistic of their efforts yielding results, allowing Kenya to grow at a faster pace than assumed under the program. They recognize the need for improving inclusivity and social support mechanisms, addressing climate-related risks, boosting competitiveness, and enhancing governance and anti-corruption framework. They also appreciate Fund's support in capacity building efforts in Kenya.

[33] See Box 5 in the World Bank's December 2023 Kenya Economic Update.

PROGRAM MODALITIES AND RISKS

39. The authorities are requesting a blended augmentation of 130.3 percent of quota (SDR707.27 million, about US$938 million) to close the residual BoP gap (Table 7a).[34,35]

- As discussed above, a new BoP financing gap has emerged since the fifth EFF/ECF reviews as global capital flows adjust to "higher for longer" global rates and Kenya's re-access to the Eurobond market remains costly (Text Table 5 and Table 6). In response, the CA balance has begun adjusting, primarily through imports, which, in turn, would allow a gradual buildup of FX reserves while protecting their adequacy. Addressing the additional BoP gap, largely due to the maturity of a US$2 billion Eurobond in June 2024, would help protect Kenya's positive medium-term economic outlook and prospects.

Text Table 5. Kenya: External Financing Needs and Sources, 2022–25

(In millions of U.S. dollars)

	2022		2023		2024		2025	
	5th Rev	Act.	5th Rev	Proj.	5th Rev	Proj.	5th Rev	Proj.
External financing needs	**1,586**	**1,582**	**1,994**	**1,608**	**1,482**	**3,278**	**165**	**1,163**
Official financing	**1,586**	**1,586**	**1,994**	**1,608**	**1,482**	**3,278**	**165**	**1,163**
IMF EFF/ECF purchases and disbursements	673	673	729	409	482	1,728	165	163
2023 EFF/ECF augmentation (BOP support)	…	…	219	108	219	325	110	109
Budget support (excl. RSF)	673	673	510	300	263	1,403	55	55
Other external budget support	913	913	1,265	1,199	1,000	1,550	0	1,000
Memorandum item								
IMF RSF disbursements	…	…	61	0	365	421	122	121
Eurobond issuance (net)	0	0	0	0	0	-2,000	495	300
Syndicated bank loans (net) 1/	298	298	541	1,041	0	0	0	0

Source: IMF staff estimates and projections.
1/ Includes US$500 million expected to be contracted in December 2023.

- The authorities have significantly stepped up their efforts and selected two lead managers to explore the scope of issuing in the Eurobond market at a reasonable cost. However, market conditions remain difficult. Consequently, the authorities have approached, and have made progress with, traditional development partners, including the World Bank, for additional concessional financing and a regional development bank for syndicated loans.
- The proposed EFF/ECF augmentation would help close the residual BoP gap, including for the June 2024 Eurobond maturity, and help contain borrowing cost. The program is on track and consistent with its objectives. Kenya's capacity to repay the Fund is adequate but subject to risks that have risen since the fifth EFF/ECF reviews (see below). RSF financing is not intended to cover the BoP gap.

[34] The Executive Board approved a 30 percent of quota augmentation under the ECF arrangement as budget support upon completion of the fourth EFF/ECF reviews in December 2022 and a blended 75 percent of quota augmentation as BoP support (EFF augmentation: 43.5 percent of quota and ECF augmentation: 31.5 percent of quota) upon completion of the fifth EFF/ECF reviews in July 2023.

[35] Based on US$/SDR exchange rate as of December 11, 2023.

40. The augmentation is proposed to be disbursed as budget support via the central bank upon completion of the sixth and seventh EFF/ECF reviews (Text Table 6 and Table 7a). The authorities are requesting augmentation of 8.5 percent of quota (SDR46.14 million) under the PRGT (ECF) resources and 121.8 percent of quota (SDR661.13 million) under the GRA (EFF).[36] The augmented amounts are requested to be phased in the following manner, reflecting additional BoP needs in the second quarter of 2024: one-third of the augmentation to be made available upon completion of the sixth EFF/ECF reviews (8.5 percent of quota from PRGT and the remaining from GRA) and the rest of the augmentation upon completion of the seventh EFF/ECF reviews (all GRA). The augmented amounts are to be on-lent via the central bank to the government as FY2023/24 budget support. To this end, the NT and the CBK have revised their Memorandum of Understanding (MoU) on servicing obligations due to the Fund.

Text Table 6. Kenya: Proposed Access to Fund Resources

Availability dates for the EFF/ECF Arrangements	Status of availability dates	Approved access as of the 5th reviews				Proposed total access				Of which: budget support				Of which: BoP support			
		GRA	PRGT	RST	Total	GRA	PRGT	RST	Total	GRA	PRGT	RST	Total	GRA	PRGT	RST	Total
		(in percent of quota)															
November 7, 2023	Approved	31.90	11.55	8.33	51.78	66.40	20.05	8.33	94.78	57.70	13.75	8.33	79.78	8.70	6.30	0.00	15.00
May 7, 2024	Approved	31.90	11.55	16.67	60.12	119.20	11.55	16.67	147.42	110.50	5.25	16.67	132.42	8.70	6.30	0.00	15.00
October 30, 2024	Approved	14.50	8.05	33.33	55.88	14.50	8.05	33.33	55.88	5.80	1.75	33.33	40.88	8.70	6.30	0.00	15.00
March 15, 2025	Approved	14.50	8.05	16.67	39.22	14.50	8.05	16.67	39.22	5.80	1.75	16.67	24.22	8.70	6.30	0.00	15.00
Disbursed so far		180.70	97.30	0.00	278.00	180.70	97.30	0.00	278.00	172.00	91.00	0.00	263.00	8.70	6.30	0.00	15.00
Total (prospective)		92.80	39.20	75.00	207.00	214.60	47.70	75.00	337.30	179.80	22.50	75.00	277.30	34.80	25.20	0.00	60.00
Of which: current EFF/ECF augmentation		...	...	...	...	121.80	8.50	0.00	130.30	121.80	8.50	0.00	130.30	0.00	0.00	0.00	0.00
Cumulative by April 2025		**273.50**	**136.50**	**75.00**	**485.00**	**395.30**	**145.00**	**75.00**	**615.30**	**351.80**	**113.50**	**75.00**	**540.30**	**43.50**	**31.50**	**0.00**	**75.00**
		(in millions of SDR)															
November 7, 2023	Approved	173.15	62.69	45.23	281.08	360.41	108.83	45.23	514.48	313.19	74.64	45.23	433.06	47.22	34.20	0.00	81.42
May 7, 2024	Approved	173.15	62.68	90.47	326.31	647.02	62.69	90.47	800.18	599.80	28.50	90.47	718.76	47.22	34.20	0.00	81.42
October 30, 2024	Approved	78.71	43.69	180.93	303.33	78.71	43.69	180.93	303.33	31.49	9.50	180.93	221.92	47.22	34.20	0.00	81.42
March 15, 2025	Approved	78.71	43.69	90.47	212.87	78.71	43.68	90.47	212.87	31.49	9.50	90.47	131.45	47.22	34.20	0.00	81.42
Disbursed so far		980.84	528.14	0.00	1508.98	980.84	528.14	0.00	1508.98	933.62	493.95	0.00	1427.56	47.22	34.20	0.00	81.42
Total (prospective)		503.72	212.78	407.10	1123.60	1164.85	258.92	407.10	1830.86	975.95	122.13	407.10	1505.18	188.89	136.79	0.00	325.68
Of which: current EFF/ECF augmentation		...	...	...	...	661.13	46.14	0.00	707.27	661.13	46.14	0.00	707.27	0.00	0.00	0.00	325.68
Cumulative by April 2025		**1484.56**	**740.92**	**407.10**	**2632.58**	**2145.69**	**787.04**	**407.10**	**3339.85**	**1909.57**	**616.08**	**407.10**	**2932.75**	**236.12**	**170.98**	**0.00**	**407.10**

Source: IMF staff calculations.
Note: Kenya's quota is SDR542.8 million.

41. The proposed augmentation would trigger both GRA EA and PS-HCC. GRA EA will be triggered by virtue of exceeding the normal annual access limit of 200 percent of quota, while the PS-HCC will be triggered as both the projected annual access and cumulative access would exceed their respective thresholds (200 percent and 600 percent of quota, respectively).[37] When both GRA EA and PS-HCC are triggered, satisfying the GRA EA criteria is sufficient (see Section 5(a) of Decision 16873-(20/91)). Staff assesses that Kenya satisfies the GRA EA criteria (see below).

42. The EFF/ECF arrangements are fully financed, with firm commitments over the next twelve months and reasonable prospects for the remainder of the program (Text Table 5 and

[36] The composition of augmentation reflects the authorities' request (as stated in attached the Letter of Intent) to access more of the financing from the GRA despite additional access room under the PRGT, created by the December 7, 2023 Board approval of temporarily higher PRGT access limits and caps, as the latter would trigger only PS-HCC, where the authorities consider meeting the criteria not feasible at the current juncture.

[37] Kenya's projected cumulative access at the completion of the fifth EFF/ECF reviews was at 510 percent of quota (excluding access under the RSF arrangement which does not count toward the limits under the Upper Credit Tranche arrangements).

Table 6). In addition to support from the Fund, Kenya's financing needs would be met by a combination of concessional and commercial loans:

- **Program financing.** 2024 program financing is stronger than projected at the fifth EFF/ECF reviews, primarily reflecting the proposed augmentation of Fund financing and a prospective upsizing of concessional financing, including from the World Bank. A recent World Bank statement indicated prospective availability of additional budget and project financing over next three years.[38]
- **External commercial financing.** The authorities have advanced their plans to tap the syndicated loans market in FY2023/24 to partially address the impending external liquidity challenge in 2024. The program baseline assumes US$500 million from syndicated loans. As stated publicly, the authorities may choose to use part of these proceeds to partially buy back the outstanding June 2024 Eurobond debt.
- **Potential upside to external financing.** The catalytic effect of Fund augmentation is likely to help the authorities succeed in their pursuit of additional concessional (including bilateral) and commercial external financing, some of which could materialize in 2024. But their prospects and timing are uncertain and are not included in the program baseline.

43. The authorities committed to initiating a fiscal safeguards review before the seventh EFF/ECF reviews. Under the proposed augmentation, with GRA EA and PS-HCC triggered, total budget support would exceed 25 percent of Fund financing, requiring a fiscal safeguards review. In addition, as reported in the Informational Annex, the CBK is assessed to have maintained sound external audit and financial reporting practices.

44. The EFF/ECF program continues to face significant risks, particularly in the near term (¶8 and Annex II). The program faces risks from heightened global uncertainty, potential implementation challenges of planned reforms from renewed social discontent, and longer than expected lack of Eurobond market access. These risks are mitigated by the possibility of access to additional concessional and commercial financing, the authorities' performance to date, and commitment from the highest political office on strong and mutually-supportive policies to safeguard macroeconomic stability by i) adopting a second Supplementary FY2023/24 Budget and additional revenue measures that are consistent with the program and deploying contingency measures to limit the impact of downside risks to the fiscal targets while protecting social cohesion (MEFP¶21); ii) sustaining a tightening bias in monetary policy and addressing the FX market dysfunction; iii) maintaining close engagement with development partners; and iv) adopting a tailored capacity development strategy to support the implementation of structural reforms in addition to those supported by the RSF.

45. The Fund would be exposed to enterprise and financial risks. Enterprise risks are elevated on both sides. The implications for GRA and PRGT resources from the proposed augmentation are expected to be manageable. While the proposed augmentation would increase

[38] See the World Bank's November 20, 2023 Statement.

the Fund's exposure to Kenya in the near term, the overall exposure including from past financing will decrease over the medium term. Risks are mitigated by continuation of mutually reinforcing credible policy package and catalytic effect of Fund financing. However, the proposed augmentation would also increase the share of preferred creditor debt, albeit by a small margin.[39] Failure of the program resulting in partial implementation to support sustainable growth, reduce debt risks, and mobilize sufficient financing would pose reputational risks for the Fund. At the same time, the alternative of not supporting Kenya through the augmentation of an on-track program would also raise reputational risks, as Kenya faces pronounced BoP difficulties, including from external shocks.

46. Kenya's capacity to repay the Fund is adequate but is subject to risks that have increased since the last review (Table 8 and DSA).

- At end-2022, the share of Kenya's debt owed to the Fund and other multilaterals was less than half of its total external public debt (Tables 9 and 10). With the proposed augmentation and prospective step up from the World Bank, the share of de facto multilateral debt is projected to increase and average at around 60 percent through 2035 under the baseline. These ratios are slightly above the average and median but below the 75th percentile (77 percent) for PRGT programs. The share of Kenya's total obligations to the Fund relative to total external public debt service would range between 2 and 21 percent until 2035 (or, between 3 and 45 percent of external bilateral and commercial debt service).
- Under the proposed augmentation, the Fund's share of the additional financing gap over 2024–25 since the fifth EFF/ECF reviews would be 44.5 percent, as compared to a 39.2 percent share (broadly unchanged from the fifth EFF/ECF reviews) in Kenya's cumulative BoP financing gap over the duration of the EFF/ECF arrangements. The latter would be lower than the Fund's share in official sector contributions in other GRA EA disbursing programs since 2015 (Text Table 7). Ratios of peak EFF/ECF credit to GDP and to gross reserves would also be lower than the same disbursing GRA EA programs.
- The total amount of outstanding credit to the Fund (including the proposed augmentation but excluding RSF) is projected at nearly SDR3.4 billion, or 625.1 percent of quota in 2025, with the ratios to GDP and gross international reserves peaking at 4.5 and 55.2 percent in 2024, respectively, both exceeding the 75th percentile of the Fund's past Upper Credit Tranche (UCT)-quality arrangements for LICs (Figure 8).40 However, both these ratios are lower than the average or median of the same ratios seen in other disbursing GRA EA programs since 2015. Non-RSF debt service to the Fund would peak by 2029 at 4.1 percent of exports and 3.4 percent of fiscal revenues, both well above the top quartile of past UCT-quality arrangements for LICs. These relatively elevated levels of scheduled debt service to the Fund may pose risks to capacity to repay over the medium term. In the near term, the materialization of downside risks, such as any delays in reform implementation could

[39] Under the baseline, the proposed augmentation is projected to increase the share of multilateral debt to total public external debt to 58.8 percent by 2025, as compared to 57.3 percent in the absence of it.

[40] Including the RSF, projected Fund credit would reach SDR3.8 billion (700.1 percent of quota) by end-2025, while the afore-mentioned debt ratios would worsen marginally (less than 0.5 percentage points) except for the ratio of outstanding credit to international reserves which would peak at 60.5 percent.

increase pressure on Kenya's capacity to repay the Fund. However, these risks are mitigated by Kenya's continued access to concessional financing, resilient exports and remittances flows, positive medium-term prospects, and a strong track record of servicing debts. Risks are further mitigated by the multi-year fiscal consolidation, supported by tax policy and other measures to boost revenues under the program as well as under the authorities' MTRS.

Text Table 7. Kenya: EFF/ECF Program and GRA EA Disbursing Programs Since 2015

Selected indicators	GRA EA programs 1/		Kenya
	Average	Median	EFF/ECF 2/
Change in primary fiscal balance (percentage points of GDP)	3.7	1.5	5.7
Sovereign spread (basis points) 3/			
On the date of announcement of staff-level agreement (SLA) or latest (Kenya)	2278	1917	594
Average over 6 months prior to SLA or prior to the latest (Kenya)	2000	1674	724
Peak over 6 months prior to SLA or prior to the latest (Kenya)	2780	1991	894
Fund financing in the UCT program (percent of quota)	633	614	540.3
EFF/ECF financing share in official sector contribution (percent)	49.3	59.7	39.2
Peak outstanding Fund credit (excl. RSF)			
In percent of country's quota	839.2	698.7	625.1
In percent of country's GDP	8.3	7.2	4.5
In percent of country's gross reserves	70.2	78.6	55.2

1/ Includes Argentina (2018 and 2022), Ecuador (2020), Egypt (2020 and 2022), and Ukraine (2015 and 2023).
2/ Under the proposed 130.3 percent of quota augmentation. Change in the primary balance measured between FY2020/21 and FY2024/25.
3/ Spreads are as of December 18, 2023 for Kenya.

- One of the key objectives of the program is to undertake growth-friendly fiscal consolidation and put public debt/GDP on a steady downward path by bringing the primary balance above its debt-stabilizing level by FY2024/25. All debt burden indicators are on a downward path, with the PV of overall debt/GDP reaching 55 percent in 2029 (the authorities' debt anchor). Any near-term breaches of the thresholds are declining over the medium term.

47. The following waivers on and modifications to conditionalities and new targets for end-December 2024 and structural benchmarks are proposed (MEFP Tables 1–2 and TMU).

- Under the ECF arrangement, a waiver of nonobservance for the end-June 2023 tax collection QPC as agreed corrective measures are expected to ensure that this nonobservance is temporary;[41]
- A waiver of nonobservance of the continuous performance criterion on no new payment external arrears which have already been settled and corrective actions taken;

[41] Under the EFF arrangement, as per Fund policies, a request for waiver of nonobservance of the end-June 2023 tax collection QPC was approved by the IMF Board in July 2023, while applicability of the other end-June 2023 performance criteria was waived given their anticipated compliance with respective targets.

- Under the EFF arrangement, waiver of applicability for the end-December 2023 performance criteria except for the one on tax revenues for which a waiver of nonobservance is requested based on corrective actions taken;[42]
- For the QPC on primary fiscal balance, deletion of the adjustor (extra-ordinary budget support to SOEs) to the QPC as it was applicable until FY2022/23 and modification of the end-June 2024 QPC, reflecting larger fiscal consolidation;
- For the QPC on net international reserves, modifications of the end-June 2024 floor—reflecting higher liabilities to the Fund due to the augmentation while gross reserves are projected at levels similar to the fifth EFF/ECF reviews—and the floor on the downward adjustor to mitigate downside risks to reserves;
- Establishment of performance criteria for end-December 2024; and
- Resetting of the SB related to a strategy on pending bills to end-February 2024 and establishment of new SBs over January–May 2024.

A. Assessment of the GRA EA Criteria

48. The proposed augmentation would trigger procedures and safeguards under both GRA EA and PS-HCC, but satisfying the GRA EA criteria would be sufficient as per Fund policies. Staff assesses that each GRA EA criterion is satisfied as described below.

- ***Criterion 1.*** *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met within normal limits.*
    - **Met.** Kenya has been facing large BoP pressures over the past few years. Despite the authorities implementing strong policies, including on fiscal consolidation, BoP pressures have intensified as global market conditions still do not allow Kenya to re-access the international bond markets at reasonable costs ahead of the June 2024 US$2 billion Eurobond maturity. Kenya is among a few of the frontier and developing economies that has a sizeable bond maturity in 2024. While recourse to syndicated loans allow Kenya some access to external commercial financing, those are costly and of shorter maturity. External financing challenges have spilled over to domestic financing costs, contributing to diversion of scarce resources more toward debt service payments and risking allocation for socially and developmentally important outlays as the authorities remain committed to fiscal consolidation. Cognizant of the challenges, the authorities are committing to stronger policies. Yet, the additional external financing needs that have emerged since the fifth EFF/ECF reviews cannot be met by policy adjustments alone and

[42] Reviews of performance under an arrangement in the Fund's GRA are based on the most recent performance criteria (PCs). For the end-December 2023 QPCs, no final data are available, prompting the request for a waiver of applicability of those PCs under the EFF arrangement for which there is not deterministic evidence of not meeting the targets. However, the QPC on taxes is likely to be missed as per information available as of November 2023. The sixth review under the ECF arrangement, a facility under the PRGT, remains based on the end-June 2023 PCs.

would require support from official and commercial sources, and from the Fund beyond the normal access limits to close the residual financing gap. Absent a Fund augmentation of such scale, facilitating additional concessional and commercial financing needed in 2024, the economic cost of further adjustment would be significant and appear to be unwarranted in the absence of a solvency problem. Additionally, any catalytic effect of such Fund augmentation could help lower domestic borrowing costs, create room for needed social and developmental spending, and strengthen FX reserves.

- ***Criterion 2.*** *A rigorous and systematic analysis indicates that there is a high probability that the member's debt is sustainable with high probability in the medium term; where the member's debt is considered sustainable but not with high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*

  - **Met.** For countries like Kenya that use the LIC DSF, debt sustainability with high probability is generally considered to be met with an assessment of low or moderate risk of overall public debt distress. However, under the program baseline and policy framework, Kenya's debt is assessed to be sustainable but at a high risk of external and overall debt distress, making it sustainable but not with high probability. Kenya has a strong track record of servicing its debt. Consistent with the Fund's EA framework, staff assessed if exposure to commercial debt by the end of the program period would remain high enough to provide adequate safeguards to Fund resources. This would allow to maintain "*the option to implement a more definitive debt restructuring later if needed, such as, in the event downside risks materialize*"[43] Specifically, staff analysis finds that sufficient safeguards exist to Fund resources: in the event of a large adverse shock occurring immediately after the end of the program, there would be enough stock of commercial debt, which, if restructured, would be adequate to restore debt sustainability and sufficient FX would be available to service obligations to the Fund (see Annex VIII for details).[44] The safeguards could be strengthened through implementation of medium-term fiscal consolidation in a manner that puts debt/GDP firmly on a downward path earlier than the program baseline; enhancing prospects for growth, exports, and FX reserves through a broader set of policies and reforms; further extension of maturity of Kenya's debt profile (relative to the shock scenario); and any possible commitment for a backstop from Kenya's official bilateral creditors.

- ***Criterion 3.*** *Staff judges that the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*

[43] The Fund's Lending Framework and Sovereign Debt – Further Considerations.

[44] The calibration of a large adverse shock scenario followed the Board-endorsed methodology for countries using the MAC SRDSF: "the signal "sustainable with high probability" is associated with a probability of an unsustainable event of less than 20 percent." (see ¶73 in IMF Policy Paper No. 2021/003).

  - **Met.** Between 2018 and 2021, Kenya issued Eurobonds totaling US$5.1 billion. Since then, given the tightening of global bond market conditions from early 2022, Kenya relied on syndicated loans as a source for commercial borrowing (about US$800 million in FY2022/23 and US$500 million expected in FY2023/24). Kenya's sovereign spreads have remained elevated, relative to their pre-Ukraine war levels, but have broadly tracked the median spread for the Sub-Saharan African region during this period, reflecting the role played by global and regional factors in impacting Kenya's cost of market access. Despite a deterioration in credit risk rating outlook, Kenya has been able to retain its sovereign credit rating by the three major global credit rating agencies following demonstrated policy actions to address the emerging challenges. The authorities attach great importance to remaining in private capital markets. They are committed to continuing a mutually reinforcing prudent policy package to deliver on the program objectives, most notably on addressing debt vulnerabilities, and are committing to stronger policies and medium-term reforms to help boost market confidence and facilitate a re-entry into international bond markets. Against this backdrop of strong policy and reform commitments, Kenya is expected to maintain access to commercial external financing and re-enter international bond markets by 2025 although some upside potential for an earlier access cannot be ruled out (see ¶42 above).

- ***Criterion 4.*** *Staff judges that the policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.*

  - **Met.** Consistent with the program's objectives, the authorities at the highest political level have repeatedly shown strong commitment to the EFF/ECF program. Despite multiple large shocks over the past two years, the authorities have adopted difficult but warranted policy measures aimed at addressing Kenya's debt vulnerabilities, a key objective under the program. While some of the structural benchmarks have been delayed, the authorities have established a track of record of implementation. This commitment has allowed keeping the program on-track at a time of unprecedented shocks impacting the global economy. They are now committing to stronger-than-envisaged policy measures in the form of larger near-term fiscal consolidation, Medium-Term Revenue Strategy, containing fiscal risks related to SOEs, significant monetary policy tightening, and addressing FX markets dislocation decisively to consolidate the program's success. They intend to pursue all necessary policies to reduce debt vulnerabilities and alleviate BoP pressures. The authorities are proactively managing the challenges to sustain macroeconomic stability and strengthening social protection programs with the support of the World Bank to ensure social cohesion. Strengthening governance and anti-corruption framework and improving institutions and capacity to support the stronger policy framework and improved liquidity and debt management are also ongoing, including through capacity development efforts by the Fund and Kenya's development partners.

DATA PROVISION AND CAPACITY DEVELOPMENT

49. Data provision has some shortcomings due to capacity constraints, but is broadly adequate for program monitoring and surveillance, and Kenya continues to benefit from capacity development and TA (Annex IX and Informational Annex). Overall quality, timeliness, and coverage of macroeconomic statistics are improving, including with support from capacity development provided by the Fund and Kenya's development partners.

50. A reconciliation of trade statistics is expected, with likely upward revision in both exports and imports. Staff recently learned that trading of petroleum products with the regional countries were excluded in BoP statistics of Kenya, which if included, may lead to an upward revision in both exports and imports (see Box 1 in DSA). Staff's preliminary assessment of the potential revisions is that the external debt ratios in the DSA would improve relative to exports, but the import coverage of FX reserves would become lower although remaining adequate.

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51. The economy has remained resilient amid shocks and tightening of policies. Growth in the first half of 2023 was robust and inflation has eased inside the target band. Growth is projected at 5 percent in 2024, as positive spillovers to aggregate demand from continued agricultural recovery is expected to be somewhat offset by the need to maintain tight policies to sustain fiscal and external sustainability. Inflation is expected to inch up in early 2024 with fuel inflation projected to be the main driver, including due to exchange rate passthrough.

52. With external financing costs remaining higher for longer, Kenya's external accounts will have to adjust. Reflecting the new reality of external financing, Kenya's current account balance will have to improve over the medium term, a process that has already started in 2023. The real exchange rate depreciation in 2023 has allowed a rebalancing of the economy toward a more sustainable external position, as also evidenced by the lower estimated gaps under staff's external sector assessment. Further exchange rate flexibility as a shock absorber, including via efforts at resolving the FX market dysfunction, should help strengthen responses to external shocks. Kenya's external position is broadly in line with medium-term economic fundamentals and desirable policies.

53. Against the backdrop of external adjustments and volatility in global oil prices, monetary policy should continue to respond proactively to maintain price stability and ensure external sustainability. Staff welcomed the CBK's move to hike the monetary policy rate by 200 basis points in December 2023 given the near-term inflation assessment and the need to maintain external sustainability. Staff also welcomes the Monetary Policy Committee's intention of maintaining a tightening bias in the near term. Monetary policy operations should complement monetary policy decisions—including appropriately aligning the interbank rate with the policy rate—and fiscal consolidation efforts in an orderly way. In this context, the introduction of an interest rate corridor around the policy rate to improve monetary policy transmission is a welcome

development. The authorities should further fine tune the operation of the interest rate corridor framework. The CBK should continue to take steps to strengthen its FX reserves position.

54. Further front-loaded fiscal consolidation efforts will be needed to mitigate debt vulnerabilities. Staff commends the authorities for their resolve in strengthening fiscal adjustment to offset the impact of higher debt servicing costs amid exchange rate depreciation and higher interest payments. An effective and equitable adjustment will require the diligent implementation of Kenya's first MTRS for base-broadening revenue measures and strengthening revenue administration while further improving the efficiency of spending to make room for needed social and development spending. In addition, contingency planning—including adoption of corrective tax measures and spending offsets— in the face of elevated challenges and evolving uncertainties remains a priority to boost readiness to safeguard fiscal performance.

55. Management of fiscal risks is essential to contain debt vulnerabilities and achieve Kenya's new debt anchor by 2029. Steadfast progress in reforming state-owned enterprises and strengthening public financial management systems will be critical to durably reduce fiscal imbalances. Over the medium term, broadening fiscal analysis to the entire public sector and strengthening institutional governance would provide more transparency in achieving the debt anchor. Risks from the G2G oil imports scheme and contingent liabilities should be managed carefully. Future risks from Public Private Partnership projects should be contained through integration into the budgetary process and inclusion of a limit on their total stock. The Fund stands ready to provide TA.

56. Strengthening social safety nets will be key to sustain social cohesion in the context of ongoing fiscal consolidation efforts. Sustaining ongoing reforms in the National Safety Net Program (NSNP) will strengthen the foundation for effective implementation of social protection to accelerate poverty alleviation and human capital development outcomes.

57. Kenya's public debt is assessed sustainable but remains at high risk of distress. Strong fiscal adjustment and mutually reinforcing policy measures will help improve the debt outlook. Efforts at boosting exports and revenues would strengthen external debt sustainability. Staff welcomes the recently introduced medium-term debt anchor of 55 percent of GDP in present value terms and the authorities' commitment to be reach it by 2029.

58. The authorities should closely monitor and address emerging vulnerabilities in the financial sector. Resolution of NPLs and continued adequate provisioning should be priorities, along with developing and adopting a macroprudential policy strategy. Continued close monitoring of maturity and liquidity mismatches in banks' FX positions is important. The authorities should review prudential regulations, including reserve requirements, to align with best practices to mitigate FX risks, with appropriate phasing to smoothen transition. Durable resolution of FX market dislocation would mitigate the trend toward increasing FX exposures in the banking sector. The CBK should continue to closely monitor spillovers and spillbacks from local banks' regional expansion and operational risks from digitalization.

59. Sustained efforts are needed to strengthen governance and anti-corruption framework. The authorities should continue to address the technical and effectiveness deficiencies in AML/CFT, including risk-based supervision to safeguard financial integrity and macroeconomic stability. Measures to increase compliance of companies and public procuring entities with their beneficial ownership publication obligations should be sustained. Further progress is needed in improving the anti-corruption framework, including on regulations for the Access to Information Act and the Conflict–of–Interest Bill in line with international standards.

60. The implementation of reforms under the RSF arrangement has been off to a good start. The authorities have completed the first reform measure (adoption of the National Framework for Climate Services). Their commitment to the other reform measures under the RSF arrangement and efforts at garnering additional climate finance are welcome. Staff also welcomes efforts at mainstreaming gender equality in response to climate change.

61. Staff supports the authorities' requests for completion of the sixth EFF/ECF reviews, augmentation of access leading to GRA exceptional access, request for waivers of nonobservance of performance criteria given that they are temporary and corrective actions have been taken, and request for waiver of applicability for the end-December 2023 performance criteria, except for the QPC on tax revenues, under the EFF arrangement.

62. Staff assesses that the first reform measure that was associated with the first RSF review has been met and supports the request for the first disbursement under the RSF arrangement.

63. It is recommended that the next Article IV consultation with Kenya be held on the 24-month cycle, in accordance with Decision No. 14747-(10/96), as amended, on consultation cycles.

Box 1. Kenya: Medium-Term Revenue Strategy for FY2024/25–FY2026/27

Kenya has finalized its first Medium-Term Revenue Strategy (MTRS) for FY2024/25–FY2026/27. The Strategy aims at mobilizing domestic resources to support the implementation of the Government Development Agenda, the Bottom-up Economic Transformation Agenda, while creating appropriate incentives for inclusive economic and social development consistent with the Fourth Medium-Term Plan (2023–27) of the Kenya Vision 2030. The MTRS is aligned with the government's National Tax Policy and targets to gradually raise ordinary revenues by 5 percentage points of GDP during FY2024/25–FY2026/27 through policies and administrative measures geared at expanding the tax base, strengthening tax administration capacities, and promoting fairness in the tax regime.[1] Cabinet approved the MTRS in November 2023 with a view to start implementation in early 2024 and include the first package of tax measures in the 2024 Finance Bill (MEFP¶23).

Kenya's MTRS was developed to reform the tax system in a broadly supported, transparent, and predictable way, with support from the Fund. The advantages of this strategic approach are several. First, it requires a broad consensus on the level of revenue mobilization effort for the medium-term that is consistent with spending needs to support economic and social development, including for priority items like public infrastructure—better economic connectivity—and health and education to strengthen human capital. Second, it provides a comprehensive reform plan, reflecting country circumstances, the state of institutional capacity, and tax reform efforts underway. Such a plan represents a framework to identify coherent and well-sequenced changes to tax policy, revenue administration, and the legal framework with a view to leverage synergies among policy, administration, and the legal framework. Third, it prompts a whole-of-government approach to sustain medium-term government commitment to reform. Fourth, the MTRS provides a framework for coordinated external support to the government-led tax system reform—including through technical assistance and capacity building.

The reforms under Kenya's MTRS are consistent with the authorities' revenue mobilization objectives of raising tax-to-GDP ratio to about 16 percent by FY2026/27. From 2024, the authorities plan to adopt a well-sequenced package of measures to achieve their revenue objectives and address equity concerns by broadening the tax bases of main taxes (e.g., streamlining tax expenditures) and by enhancing tax compliance (e.g., improving efficiency in revenue administration, enforcing collection, removing loopholes). Specifically, the MTRS envisages measures to review and rationalize tax reliefs for income (i.e., PAYE, CIT) and VAT, while reducing key CIT and VAT rates and improving the progressivity of PAYE and harmonizing excise taxation. It also includes new taxes to address externalities related to climate by introducing a carbon tax as well as a motor vehicle circulation tax. Measures on the administration side include improving revenue administration management (e.g., appropriate staffing levels and skills, efficiency of tax refunds) and improving core operational functions in domestic taxes and customs by strengthening compliance (e.g., improving risk management, enhancing tax administration systems with 3rd-party systems to facilitate data sharing and risk-based compliance, and improving taxpayer audits, and strengthening tax arrears collection).

A timely and diligent implementation of MTRS measures will be key to durably improve revenue collection and enhance tax fairness while supporting inclusive development. The authorities plan to start implementation of the MTRS in early 2024 and reflect all the MTRS measures envisaged for the first year of implementation in the 2024 Finance Bill. Looking ahead, the authorities should promptly strengthen the MTRS governance by establishing a formal monitoring process at the ministerial level (end-February 2024 SB) to enhance political commitment, ensure effective oversight, and rapidly resolve emerging implementation issues. In addition, it is critical to clearly communicate to all stakeholders that all MTRS measures are part of a coherent package rather than a menu of options. This is essential to ensure a coherent and well-sequenced implementation that leads to effective and fair outcomes.

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[1] Ordinary revenues include taxes as per program definition (TMU¶25) but also some nontax revenue.

Box 2. Kenya: Financing Locally-Led Climate Action (FLLoCA) Program

The FLLoCA program seeks to involve communities most affected by climate change in adaptation initiatives through decentralized climate finance. Through existing devolved governance structures, the approach empowers local communities by giving them control of their climate adaptation choices. This marks a significant departure from the traditional top-down approaches. The aim is to ensure that support for climate resilience reaches those most at risk, including women, youth, persons with disabilities, elders, and other traditionally marginalized groups.[1]

The program pools resources from national and county governments, the World Bank, Denmark, Sweden, the Netherlands, and KFW. Total development partner funding amounts to $250.4 million, and the program runs until end-2026. Typically, only around ten percent of climate finance reaches local levels. Under FLLoCA, ninety percent of program funding will be spent at county and community levels, with a significant portion in the form of performance-based grants. The program design builds on successful pilots which found that public good investments prioritized by the communities through a highly consultative process had direct and indirect benefits, including improved livelihoods, incomes, and food security, new economic opportunities, and fewer conflicts within households, communities, and between neighboring villages.[2]

Coordinated by the National Treasury, the FLLoCA program includes the Ministry of Environment, Climate Change, and Forestry, as well as the Council of Governors. The program supports key Ministries, Departments, and Agencies in agriculture, water, and natural resource management at the local level—particularly in environmental risk management. The program also works with a large network of civil society organizations, many of which aim specifically at uplifting women. Typical activities under this program include implementing climate-smart agriculture practices, such as drought-resistant crops, improved irrigation systems, and sustainable land management to increase resilience against changing weather patterns. Other community-focused activities include dredging waterways, constructing reservoirs, borehole installations, and use of clean energy for water reticulation.

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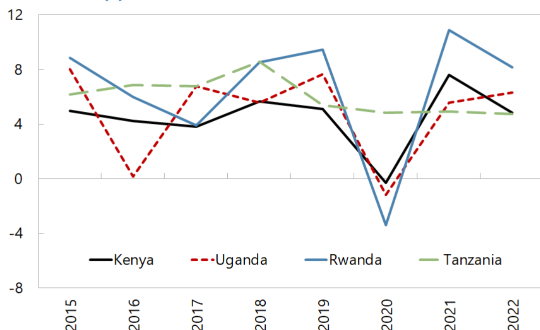
[1] Women can play important leadership roles in community-based reform programs, as envisaged under FLLoCA. For example, in order to combat the impact of the COVID-19 pandemic, Kenyan community 'network leaders' received training from the UN on early warning and early response mechanisms. See Annex VII. Gender Equity and Climate Change in Kenya for a more detailed discussion of the gender effects of climate change

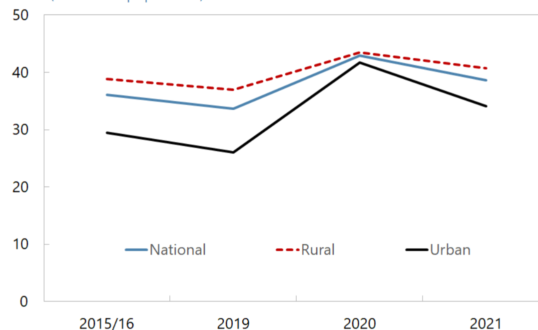
[2] The County Climate Change Funds (CCCF), piloted by the Adaptation (ADA) Consortium, financed around 100 public good investments that were prioritized by the communities through a highly consultative process, reaching more than 500,000 beneficiaries across the five counties, most of whom were women.

Figure 1. Kenya: Real Sector Developments

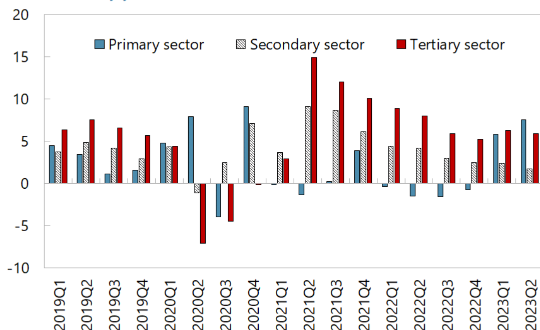
Kenya's growth remains resilient amid multiple shocks and has generally followed the regional peers…



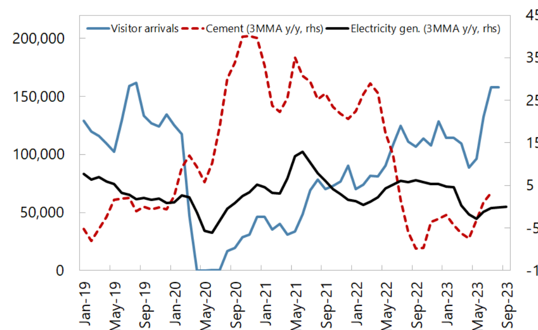
…helping lower poverty until the COVID-19 shock hit.



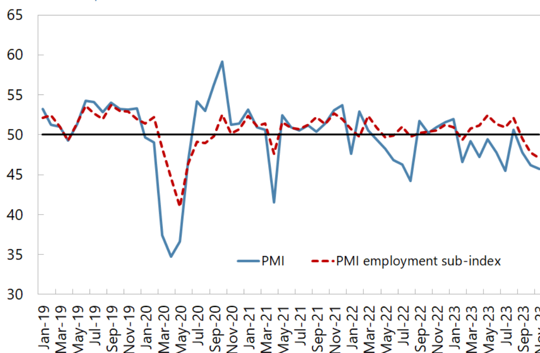
Return of rains after two years of drought has helped a turnaround in agricultural growth in 2023Q1.



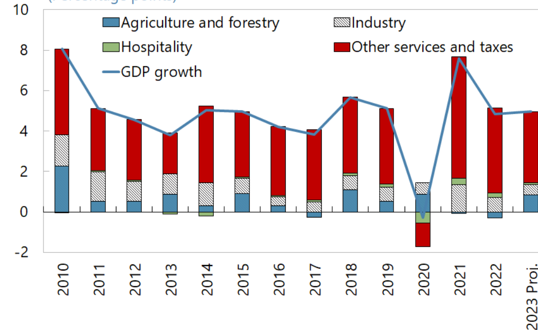
Tourist arrivals continue to recover, but growth in cement production and electricity generation were weak…



…and the manufacturing sector's momentum is weak so far in 2023.



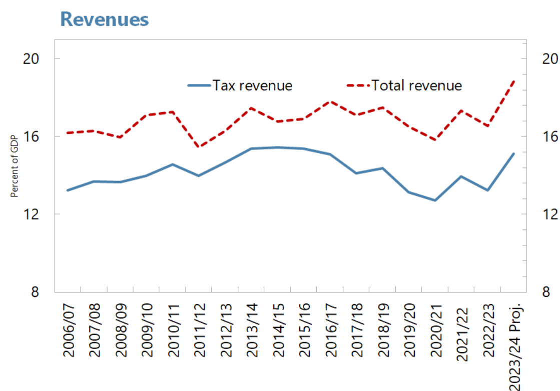
Overall, agricultural recovery will add to 2023 growth, but tighter policies will dampen demand somewhat.



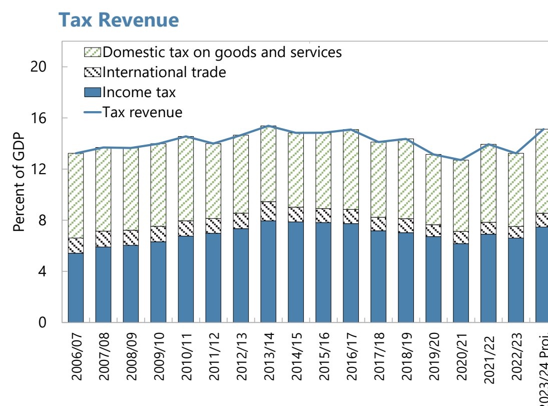
Sources: Kenyan authorities; Markit Economics; and IMF staff calculations and projections.

Figure 2. Kenya: Fiscal Sector Developments

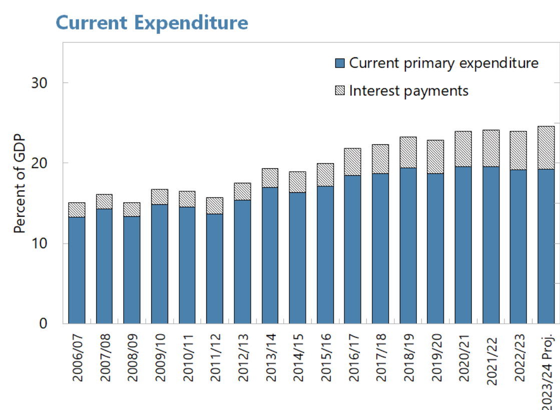
Recent gains in tax/GDP ratio halted in FY2022/23 and expected to pick up in FY2023/24….



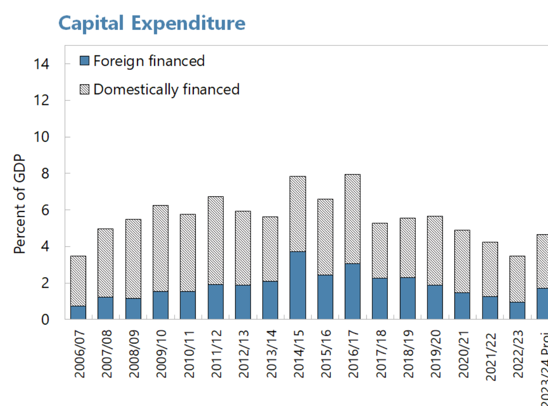
…as policy measures boost collections of domestic taxes.



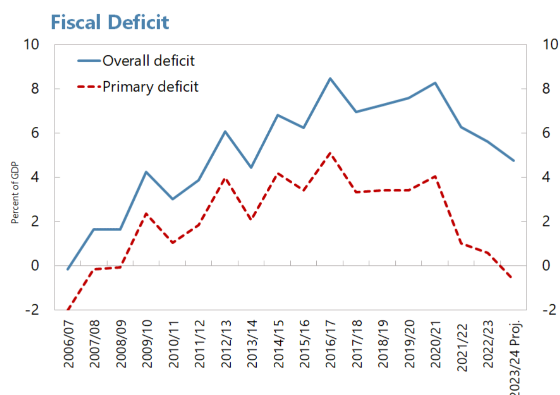
As challenges in mobilizing domestic resources persisted, the execution of current expenditure slowed…



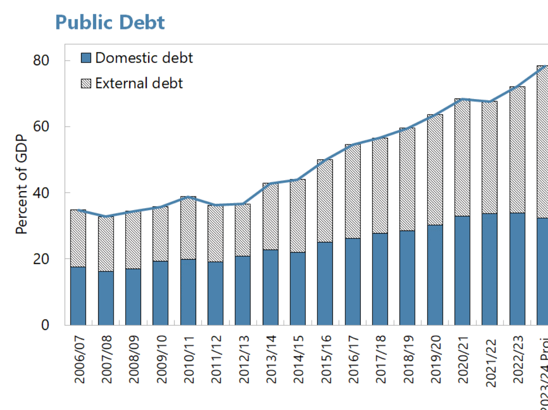
… and capital expenditure until FY2022/23 decelerated as a share of GDP.



The fiscal primary deficit has declined amid ongoing fiscal consolidation to help contain debt vulnerabilities…



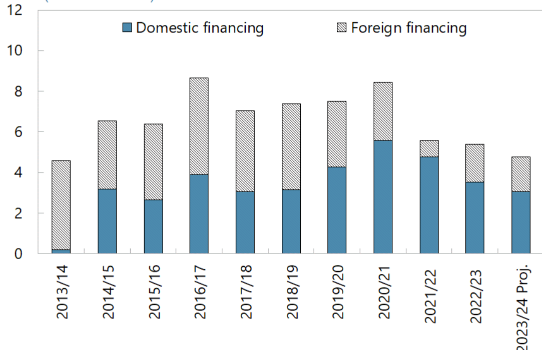
…amid currency depreciation which is contributing to a rise in overall debt.



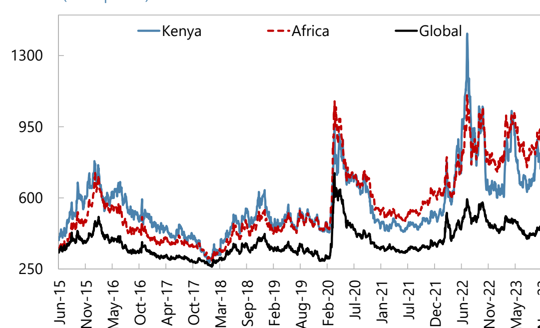
Sources: Kenyan authorities; and IMF staff calculations.

Figure 3. Kenya: Financing

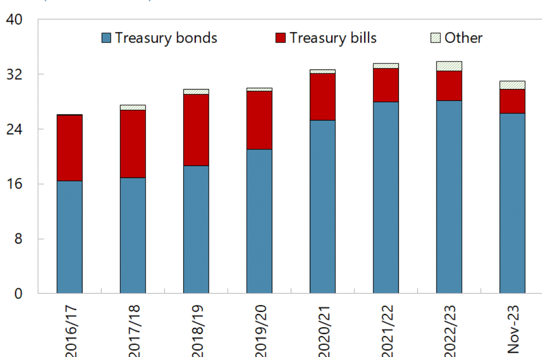
Share of external financing, primarily in the form of official sector support, is rising from a recent low in FY2021/22...



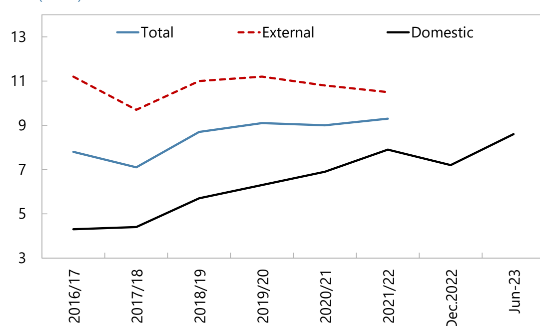
...as conditions for re-accessing the international bond market remains tight.



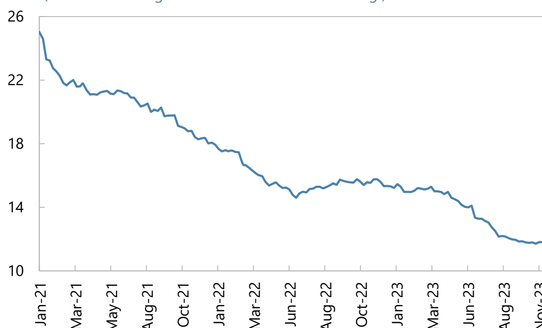
The bulk of domestic debt stock remains in Treasury bonds...



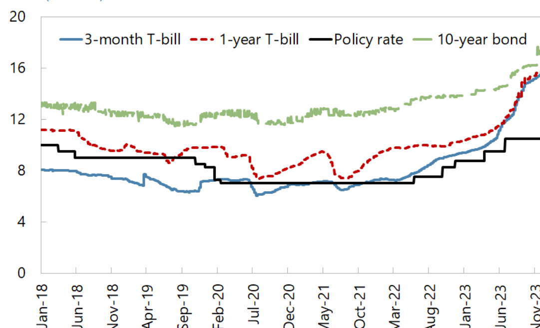
...benefitting from past efforts that have locked in improvements in the maturity of Kenya's domestic debt



Share of T-bills in domestic debt stock has declined since FY2021/22 as auctions have not fully kept pace with redemptions...



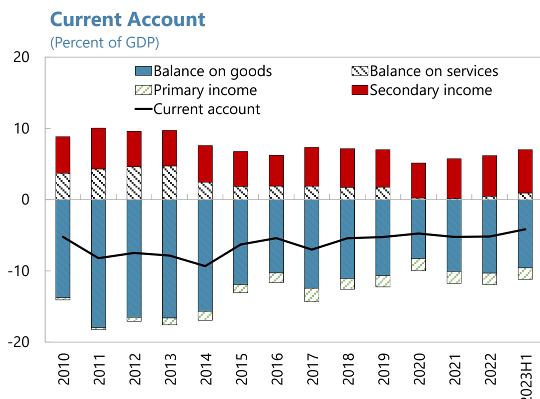
...despite a notable increase in the T-bill yields in recent months.



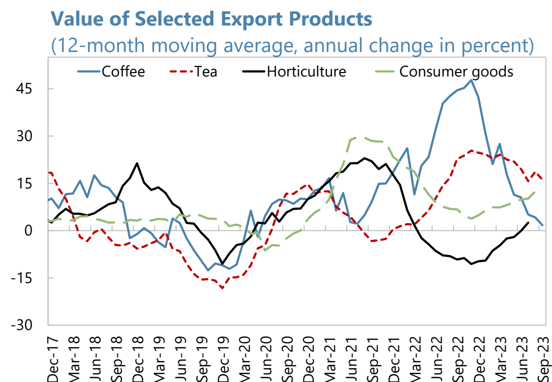
Sources: Kenyan authorities; Bloomberg L.P; and IMF staff calculations and projections.

Figure 4. Kenya: External Sector Developments

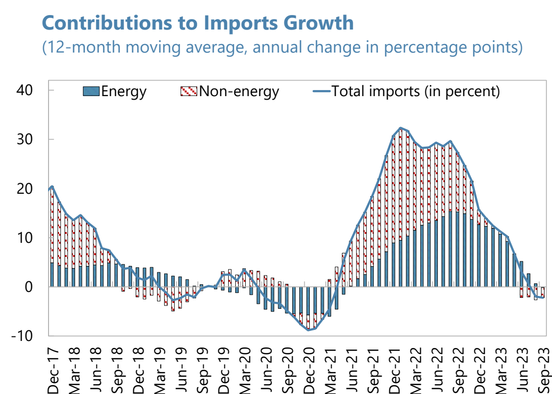
The current account deficit narrowed in 2022 and further in 2023 on slower non-energy imports and the strength of tourism.



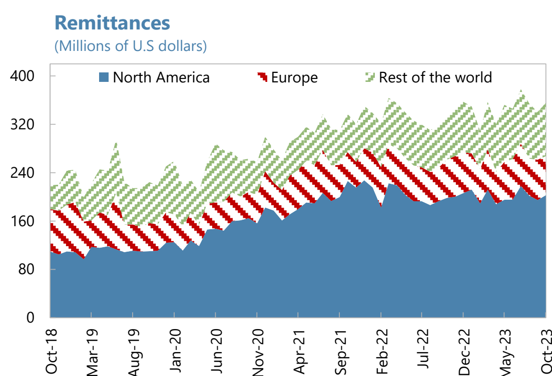
Coffee and tea exports grew strongly in 2022, while horticulture and consumer goods exports slowed, but those trends reversed in 2023.



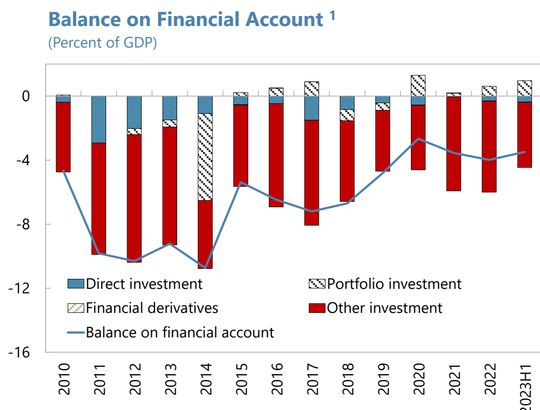
On goods imports, non-energy imports have slowed significantly, and energy imports are off their peaks.



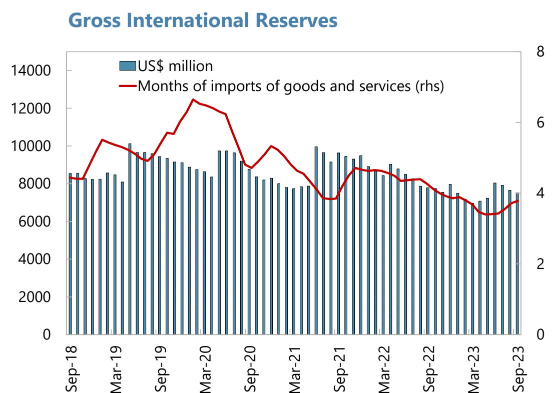
Remittances remained resilient.



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



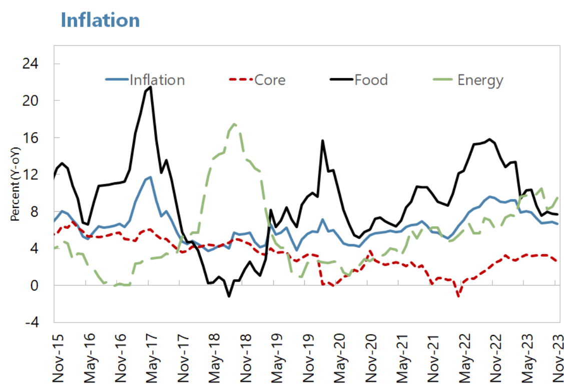
Reflecting developments in financial flows, FX reserves have declined but remain adequate.



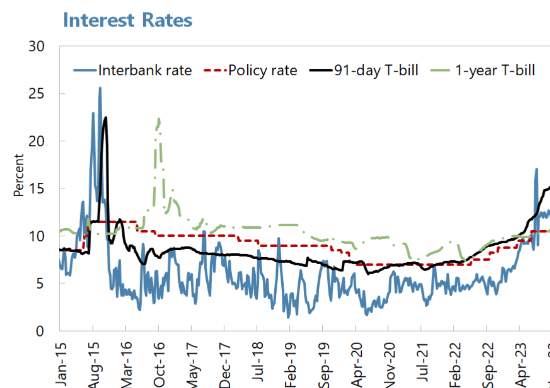
Sources: Kenyan authorities; and IMF staff estimates.
[1] Negative entry means net inflows.

Figure 5. Kenya: Monetary and Exchange Rate Developments

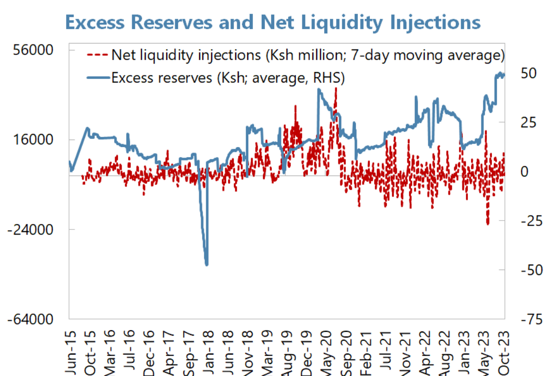
Inflation has eased inside the target band on lower food inflation, but fuel inflation remains elevated.



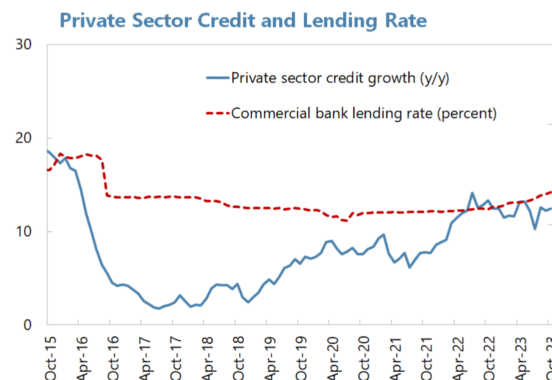
Policy rate has been tightened by a total of 550 points since May 2022 and other rates have gone up.



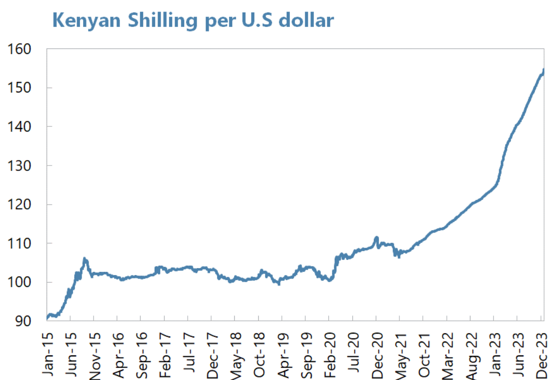
Excess reserves increased.



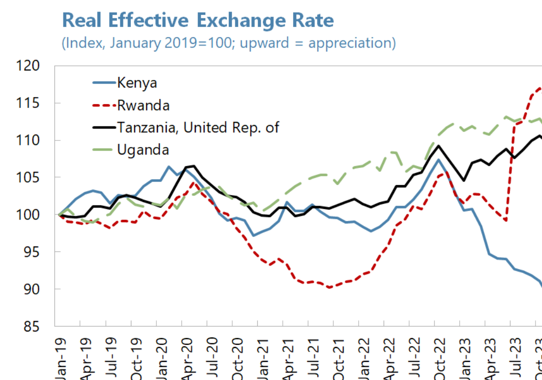
Private sector credit growth has stabilized somewhat as lending rates slowly creep up.



The currency weakened against the U.S. dollar at a faster pace in 2023…



…causing the real effective exchange rate to reach its most depreciated level in five years.

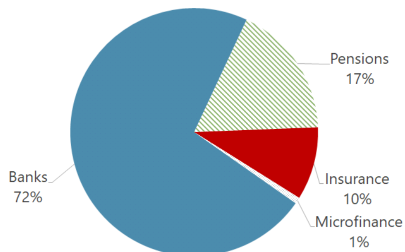


Sources: Kenyan authorities; and IMF staff calculations.

Figure 6. Kenya: Financial Sector

Financial sector is dominated by banks....

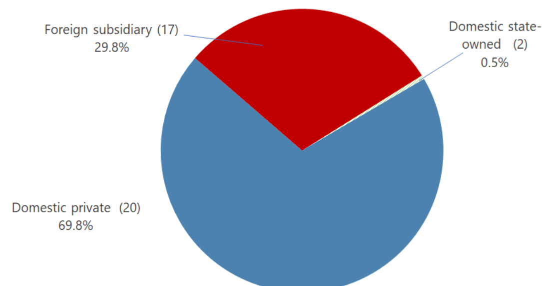
Financial Sector Structure
(September 2023) 1/



1/ Total net assets of Ksh.10.2 trillion (US$75 billion, 67 percent of GDP)

...of which majority are domestic private banks.

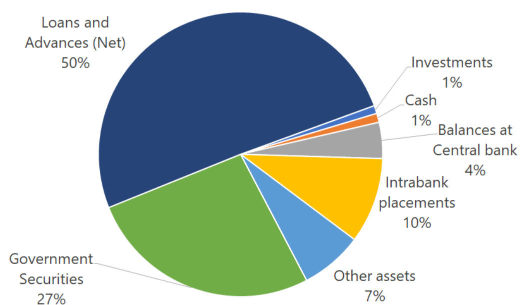
Banking System Structure
(September 2023) 1/2/



1/ Total net assets of Ksh.7.4 trillion (US$55 billion, 49 percent of GDP).
2/ Number of banks in brackets; percentages are for net assets.

After loans, a significant share of banks' assets are in government securities....

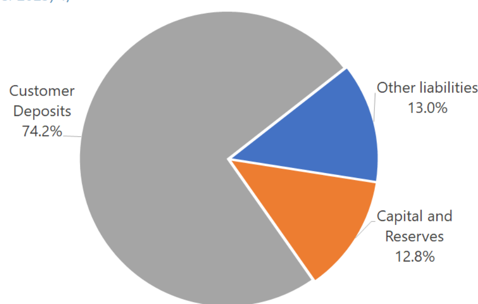
Banks' Assets
(September 2023) 1/



1/ Total assets of Ksh.7.4 trillion.

... and funding is largely from deposits.

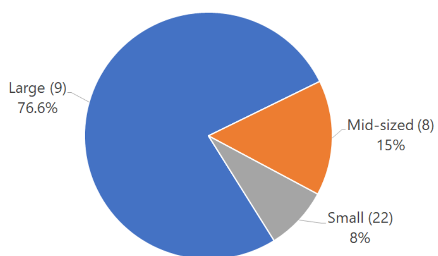
Banks' Liabilities
(September 2023) 1/



1/ Total liabilities of Ksh.7.4 trillion.

Nine banks account for 77 percent of banking sector assets...

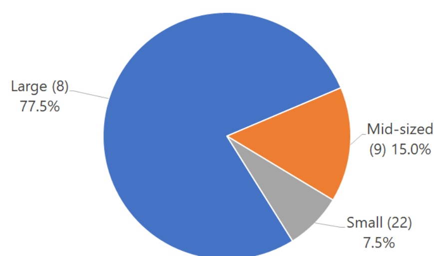
Banking System Assets by Tier Groups
(September 2023) 1/ 2/



1/ Total net assets of Ksh.7.4 trillion (US$55 billion, 49 percent of GDP).
2/ Number of banks in brackets; percentages are for assets.

... as well as deposits.

Banking System Deposits by Tier Groups
(September 2023) 1/ 2/

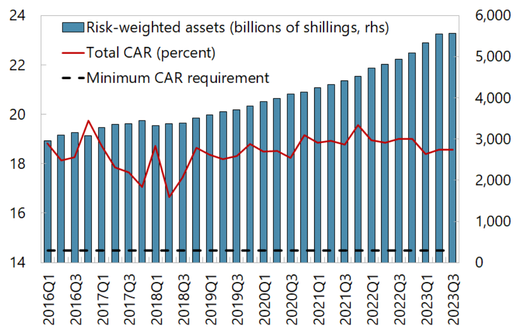


1/ Total deposits of Ksh.5.5 trillion.
2/ Number of banks in brackets; percentages are for customer deposits.

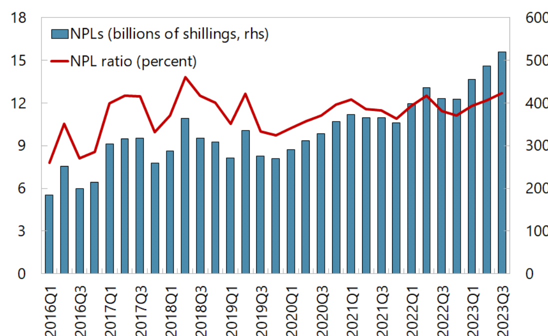
Source: Central Bank of Kenya

Figure 7. Kenya: Financial Sector Developments

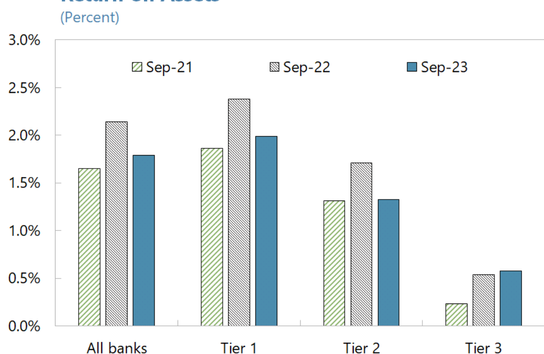
Capital adequacy levels for the banking sector are well above the regulatory minima.



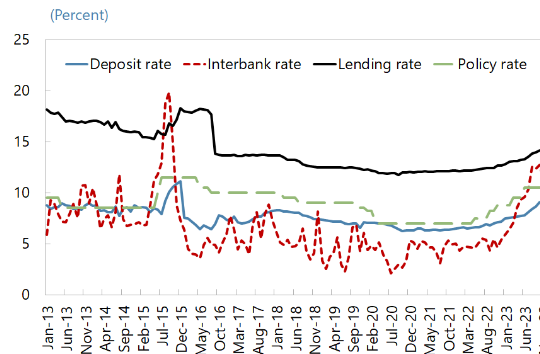
Non-performing loans remain elevated and have risen further.



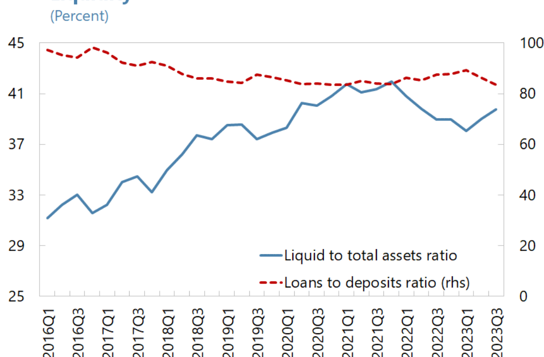
Profitability remains strong…



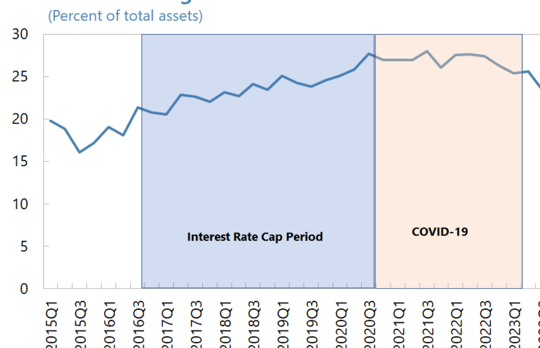
…supported by significant spreads between deposits and lending rates and profits from FX businesses.



Banking sector has ample liquidity…



… driven by sizeable holdings of government securities.

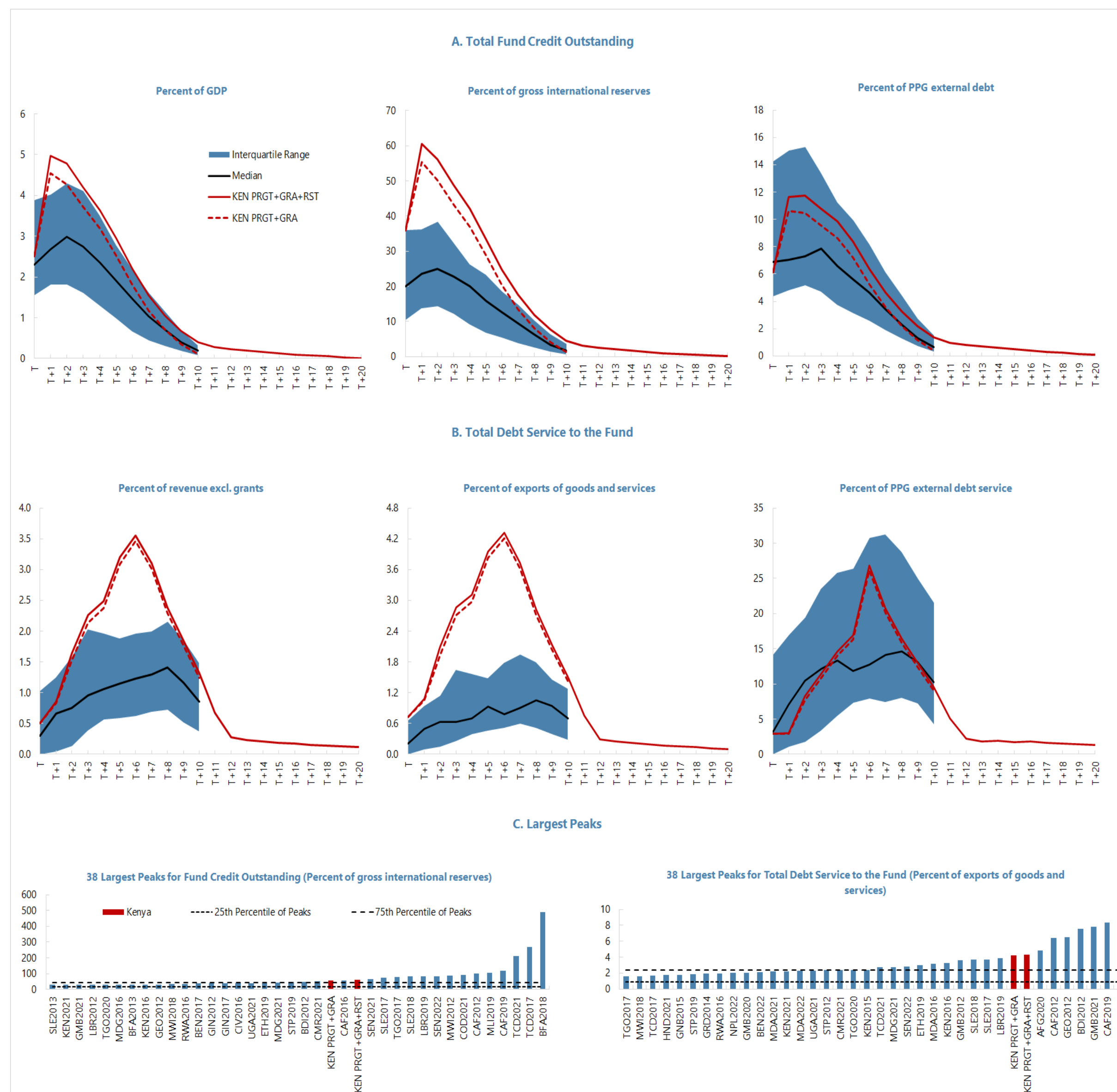


Sources: Central Bank of Kenya; Financial Disclosure of Kenyan banks; and IMF staff calculations.

[1] NPLs= Gross NPLs minus accrued interest.

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

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



Source: IMF staff calculations.

Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.

2) Red lines/bars indicate the CtR indicator for the arrangement of interest.

3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.

4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.

5) Comparator series is for PRGT arrangements only and runs up to T+10.

6) Debt service obligations to the Fund reflect prospective payments, including for the current year.

7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Table 1. Kenya: Selected Economic Indicators, 2021–28

	2021	2022	2023		2024		2025		2026	2027	2028
	Act.	Act.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
Output, prices, and exchange rate											
Real GDP	7.6	4.8	5.0	5.1	5.3	5.0	5.3	5.3	5.3	5.3	5.3
GDP deflator	4.3	6.0	8.2	8.2	6.7	7.1	5.4	5.3	5.4	5.1	5.0
CPI (period average)	6.1	7.6	7.8	7.7	6.6	7.0	5.4	5.2	5.4	5.0	5.0
CPI (end of period)	5.7	9.1	7.1	7.2	6.5	6.3	5.0	5.2	5.0	5.0	5.0
Terms of trade (goods; deterioration, -)	-2.2	2.8	3.8	5.5	0.8	1.5	0.9	0.2	0.1	0.2	0.0
Exchange rate (Kenyan shilling/US$, average, depreciation, -)	-2.9	-7.0	.	.	.	.	.	.	.	.	.
Real effective exchange rate (average, depreciation, -)	-2.6	2.2	.	.	.	.	.	.	.	.	.
Money and credit											
Broad money (M3)	6.1	7.1	7.5	13.8	9.5	12.4	10.3	10.8	11.0	10.6	10.5
Reserve money	11.0	-1.4	19.0	6.4	0.1	11.1	3.7	8.0	12.1	10.6	10.5
Credit to non-government sector	8.6	12.5	9.5	11.1	12.1	10.8	12.8	12.6	12.3	12.4	12.2
M3/GDP (percent)	35.2	33.9	32.1	33.9	31.3	33.9	31.1	33.9	33.9	33.9	33.9
	(Percent of GDP, unless otherwise indicated)										
Central government budget [1]											
Total revenue, grants and unidentified tax policy measures	16.1	17.6	16.7	16.7	18.8	19.0	18.3	19.1	19.5	19.4	19.4
Tax revenues	12.7	13.9	13.1	13.2	15.1	15.1	15.2	15.2	15.6	15.6	15.6
Non-tax revenues	3.1	3.4	3.4	3.3	3.5	3.7	2.9	3.7	3.6	3.5	3.5
Grants	0.3	0.2	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.2	0.2
Expenditure and unidentified offsets	24.4	23.8	23.7	22.6	23.3	23.8	22.3	22.7	22.6	22.6	22.5
Current	19.5	19.6	19.8	19.1	18.4	19.2	17.3	17.3	16.9	17.0	17.0
Capital	4.9	4.3	3.9	3.5	4.9	4.6	5.0	5.4	5.6	5.6	5.6
Primary balance	-4.0	-1.0	-1.1	-0.6	0.4	0.7	0.9	1.7	1.7	1.6	1.6
Overall balance [2]	-8.3	-6.3	-7.0	-5.6	-4.5	-4.7	-4.0	-3.5	-3.1	-3.2	-3.1
Excluding grants	-8.5	-6.5	-7.3	-5.8	-4.8	-5.0	-4.2	-3.8	-3.4	-3.5	-3.4
Net domestic borrowing	5.6	4.8	3.7	3.5	2.4	3.0	2.6	1.8	1.9	3.0	2.9
Public debt											
Public gross nominal debt	68.2	67.9	70.6	73.2	68.5	73.3	66.9	70.3	67.8	65.4	63.1
Public net nominal debt	64.2	65.4	68.3	72.7	66.8	73.0	65.6	69.4	66.9	65.7	63.6
Public gross debt, PV	61.6	63.9	64.4	68.2	61.9	67.2	60.2	64.0	61.4	59.1	56.9
Public net debt, PV	55.4	61.4	62.1	67.7	60.2	66.9	58.8	63.1	60.5	59.4	57.4
Gross domestic debt	33.5	33.5	32.7	32.7	30.7	30.9	30.2	29.9	29.0	28.7	28.1
Gross external debt	34.7	34.5	37.9	40.5	37.8	42.4	36.7	40.4	38.8	36.7	35.0
Investment and saving											
Investment	20.4	19.2	17.8	17.4	18.5	18.4	19.5	19.4	19.7	19.9	20.2
General government	4.5	3.9	4.2	4.1	4.7	5.0	5.0	5.5	5.6	5.6	5.6
Nongovernment	15.9	15.3	13.6	13.4	13.9	13.4	14.5	13.9	14.1	14.4	14.6
Saving	15.2	14.0	13.0	13.4	13.6	14.3	14.5	15.2	15.5	15.7	16.1
General government	-2.9	-2.4	-1.1	-1.6	0.4	0.0	1.4	1.6	4.3	6.4	7.2
Nongovernment	18.0	16.4	14.1	14.9	13.2	14.3	13.1	13.5	11.2	9.3	8.9
External sector											
Exports (goods and services)	10.8	12.2	13.4	12.3	14.5	14.9	15.0	15.1	15.2	15.4	15.5
Imports (goods and services)	19.9	21.5	21.9	20.0	23.1	22.9	23.6	22.8	22.9	23.1	23.2
Current account balance (including grants)	-5.2	-5.2	-4.8	-4.0	-5.0	-4.1	-5.0	-4.2	-4.2	-4.2	-4.1
Gross international reserves											
In billions of US$	9.5	8.0	7.3	7.6	8.5	8.1	9.7	9.0	9.9	10.6	11.6
In months of next year imports	4.7	4.4	3.3	4.0	3.5	4.0	3.7	4.1	4.2	4.2	4.2
Memorandum items:											
GDP at current market prices (billions of Kenyan shilling)	12,028	13,368	15,179	15,206	17,041	17,085	18,920	18,936	21,013	23,245	25,694
GDP per capita (nominal US$)	2,205	2,240	2,189	2,107	2,195	1,879	2,289	1,996	2,118	2,229	2,350

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

[1] Fiscal year basis. Fiscal year runs from July 1 – June 30 (e.g., FY2023/24 runs from July 1, 2023 to June 30, 2024). 5th review figures refer to the supplement to the staff report for the 5th EFF/ECF reviews.

[2] Overall balance in FY2022/23 includes 0.3 percent of GDP in adjustments to cash basis.

Table 2a. Kenya: Central Government Financial Operations 2020/21–2025/26 [1,2,3]

(In billions of Kenyan shillings)

	2020/21	2021/22	2022/23		2023/24				2024/25			2025/26	
	Actual	Actual	5th Rev.	Prel.	5th Rev.	Proj.	Budget	Suppl. Budget I	5th Rev.	Proj.	BROP	Proj.	BROP
Revenues and grants	**1,815.1**	**2,230.8**	**2,386.3**	**2,383.6**	**3,030.5**	**3,070.2**	**3,031.3**	**3,070.1**	**3,297.9**	**3,441.4**	**3,437.3**	**3,886.5**	**3,886.6**
Revenue	**1,783.7**	**2,199.8**	**2,343.9**	**2,360.5**	**2,988.3**	**3,022.8**	**2,989.1**	**3,022.8**	**3,255.2**	**3,392.1**	**3,388.0**	**3,833.3**	**3,833.3**
Tax revenue (including unidentified tax measures)	1,429.5	1,770.2	1,865.1	1,886.6	2,427.8	2,427.8	2,427.8	2,427.8	2,734.9	2,734.9	2,730.8	3,115.3	3,115.3
Income tax	694.1	876.7	903.7	941.6	1,198.5	1,198.6	1,198.5	1,198.5	1,312.3	1,312.3	1,325.7	1,472.9	1,500.1
Personal income	363.3	462.4	446.7	494.9	619.0	619.0	619.0	619.0	669.3	669.3	683.9	730.5	785.4
Corporate income	330.7	414.4	457.1	446.7	579.5	579.5	579.5	579.5	643.0	643.0	641.7	742.4	714.8
Import duty (net)	108.4	118.3	129.3	130.1	173.3	173.3	173.3	173.3	201.4	201.4	199.4	210.3	229.0
Excise duty	216.3	252.1	276.4	264.5	352.7	352.7	352.7	352.7	396.7	396.7	401.1	430.3	460.0
Value-added tax	410.8	523.1	555.7	550.4	703.3	703.3	703.3	703.3	764.6	764.6	804.7	852.4	926.2
Domestic	197.1	244.9	284.0	272.7	356.3	356.3	356.3	356.3	387.9	387.9	375.6	439.7	427.5
Imports	213.7	278.2	271.7	277.7	347.0	347.0	347.0	347.0	376.7	376.7	429.1	412.7	498.6
Nontax revenue	354.2	429.6	478.8	473.9	560.5	595.0	561.3	594.9	520.2	657.2	657.1	718.0	718.0
Investment income	45.1	43.7	38.6	41.3	33.1	38.7	33.1	38.7	34.7	34.7	34.7	38.1	38.1
Other	87.4	104.1	103.3	113.2	108.2	110.3	110.3	110.3	133.1	133.3	133.3	141.0	141.0
Ministerial and Departmental Fees (AIA)	193.2	245.5	300.0	279.5	374.1	408.6	372.8	408.6	308.9	432.7	432.7	477.4	477.4
Railway Levy	28.5	36.4	36.8	39.9	45.1	37.4	45.1	37.4	43.5	56.4	56.4	61.5	61.5
Grants	**31.3**	**31.0**	**42.4**	**23.1**	**42.2**	**47.4**	**42.2**	**47.4**	**42.7**	**49.3**	**49.3**	**53.2**	**53.2**
Project grants	22.4	27.4	35.5	16.1	42.2	47.4	42.2	47.4	42.7	49.3	49.3	53.2	53.2
Program grants	8.9	3.6	6.9	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**2,749.5**	**3,027.5**	**3,379.9**	**3,221.0**	**3,748.7**	**3,833.4**	**3,747.3**	**3,931.4**	**4,011.9**	**4,077.8**	**4,238.1**	**4,501.2**	**4,625.0**
Recurrent expenditure (including spendig offsets)	**2,197.2**	**2,487.4**	**2,819.2**	**2,727.3**	**2,966.1**	**3,089.5**	**2,966.3**	**3,186.3**	**3,111.7**	**3,111.0**	**3,269.6**	**3,375.7**	**3,497.9**
Transfer to counties	368.3	352.4	436.3	399.6	429.7	423.9	429.7	423.9	394.3	444.8	444.8	472.9	472.9
Interest payments	495.1	577.7	696.5	687.3	775.1	868.1	775.1	918.8	878.9	941.2	966.1	957.0	979.4
Domestic interest	388.8	456.8	545.5	533.1	628.3	624.3	628.3	646.4	654.2	674.9	716.1	717.3	739.9
Foreign interest due	106.3	120.8	151.0	154.2	146.9	243.8	146.9	272.5	224.7	266.3	250.0	239.7	239.5
Wages and benefits (civil service)	493.0	520.0	539.6	539.6	584.5	584.6	584.5	584.6	621.2	645.3	645.3	703.4	703.4
Civil service reform	3.3	26.4	31.9	29.6	28.5	28.5	28.5	28.5	30.8	31.3	31.3	34.4	34.4
Pensions and Other Consolidated Fund Services	112.9	122.4	145.4	120.4	165.4	165.4	165.4	165.4	192.9	181.4	181.4	199.3	199.3
Defense and NSIS	157.7	175.8	172.2	172.2	183.3	190.8	183.3	190.8	176.5	170.0	170.0	170.0	170.0
Other	566.8	712.7	797.3	778.7	799.6	828.2	799.8	874.3	817.2	697.0	830.7	838.7	938.5
of which: Emergency spending (droughts, security)		24.0	0.0		0.0				0.0				
Development and net lending	**552.3**	**540.1**	**560.7**	**493.7**	**782.6**	**743.8**	**781.0**	**745.1**	**900.1**	**966.8**	**968.5**	**1,125.6**	**1,127.1**
Domestically financed	385.3	378.2	377.4	356.1	502.7	466.3	500.4	467.5	513.3	576.9	578.5	693.9	695.4
of which: SOEs emergency funding	36.6	36.6	38.8	22.8	17.2	19.6	17.2	18.9	18.6	20.8	19.7	20.1	19.7
Foreign financed	167.0	161.9	183.2	137.6	279.9	277.6	280.6	277.6	386.9	390.0	390.0	431.7	431.7
of which: SGR project	11.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: COVID-19 vaccines	0.0	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments to cash basis	5.1	0.0	0.0	37.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including measures (cash basis, incl. grants)	**-929.3**	**-796.7**	**-993.6**	**-800.4**	**-718.1**	**-763.2**	**-716.0**	**-861.3**	**-713.9**	**-636.4**	**-800.9**	**-614.8**	**-738.4**
Financing	**950.5**	**707.0**	**848.6**	**770.3**	**718.1**	**763.2**	**716.0**	**861.3**	**713.9**	**636.4**	**800.9**	**614.8**	**738.4**
Net foreign financing	323.3	101.7	317.2	267.9	334.3	277.1	186.8	412.1	249.4	319.9	296.5	233.3	176.0
Disbursements	451.6	286.2	553.7	505.3	875.1	913.1	727.6	978.7	564.0	688.4	626.2	763.5	602.8
Project loans	157.1	151.2	194.1	136.2	271.6	243.4	271.6	263.4	412.8	386.0	377.6	377.0	415.4
Program loans	168.6	135.0	250.0	266.9	301.5	593.6	154.0	540.2	62.8	260.2	97.6	180.5	21.3
of which: IMF (RCF+ EFF/ECF+RSF)	77.6	29.0	81.5	81.4	138.9	305.0	138.9	233.7	62.8	82.9	73.7	0.0	0.0
Non-concessional	114.3	0.0	109.5	102.2	302.0	76.1	302.0	175.1	88.3	42.1	151.0	206.0	166.1
Standard Gauge Railway	11.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-128.3	-184.5	-236.5	-237.4	-540.9	-636.0	-540.9	-566.7	-314.6	-368.4	-329.7	-530.2	-426.8
Net domestic financing	627.2	605.3	531.3	502.4	383.8	486.1	529.2	449.2	464.6	316.5	504.4	381.4	562.4
Memorandum items:													
Nominal GDP	11,256.1	12,698.0	14,273.5	14,276.0	16,110.0	16,123.7	16,110.0	16,133.7	17,980.6	17,984.3	18,047.8	19,944.8	20,086.5
Primary balance incl. grants	-455.4	-129.3	-152.0	-83.0	57.1	104.9	59.2	57.6	165.0	304.8	165.0	342.3	240.8
Fuel subsidies (net of Petroleum Levy resources)		60.6	0.0	31.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary expenditure	2,254.3	2,449.9	2,683.3	2,533.7	2,973.5	2,965.2	2,972.1	3,012.6	3,133.0	3,136.6	3,272.0	3,544.2	3,645.6
Expenditure carryover from previous fiscal year		88.7	145.0	104.6									
Unidentified spending offsets due to SOE supports		0.0	0.0	0.0	0.0	19.6			0.0	20.8		20.1	
RSF budget support		0.0	0.0	0.0	35.5	30.9			46.1	63.7			
Net domestic financing (before RSF)			531.3	502.4	419.3	517.0			510.7	380.1			
Debt Service (DS) Relief	46.2	0.0	0.0	0.0	0.0	0.0			0.0	0.0		0.0	
Repayment	0.0	0.0	14.9	0.0	16.6	18.3			16.9	19.8		19.5	
Total gross public debt, gross	7,696.6	8,579.1	10,277.3	10,278.7	11,285.8	12,590.6			12,332.0	13,119.6		13,946.1	
external debt	3,999.5	4,290.8	5,451.6	5,446.6	6,143.4	7,272.4			6,725.1	7,484.9		7,930.0	
domestic debt	3,697.1	4,288.3	4,825.7	4,832.1	5,142.3	5,318.2			5,606.9	5,634.7		6,016.1	
Total net public debt	7,140.2	8,161.0	9,859.1	9,894.0	10,867.6	12,205.9			11,913.9	12,734.9		13,561.4	
Unidentified tax policy measures	0.0	0.0	0.0	0.0	0.0	0.0			59.9	59.9		89.6	
Unidentified spending adjustments	0.0	0.0	0.0	0.0	0.0	-47.3			0.0	-223.5		-101.3	
Pending bills[3]	24.9	149.7	145.0	104.5	0.0	0.0			0.0	0.0		0.0	
Government deposits	556.4	418.2	418.2	384.7									

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

[1] Fiscal year runs from July to June. BROP stands for Budget Review and Outlook Paper.

[2] 5th Rev. figures refer to those in the Supplement to the staff report for the 5th EFF/ECF reviews.

[3] 5th Rev. column for FY2022/23 reports estimated accumulated unpaid bills that explain the difference between the overall balance and financing.

Table 2b. Kenya: Central Government Financial Operations 2020/21–2025/26[1,2,3]

(In percent of GDP)

	2020/21	2021/22	2022/23		2023/24				2024/25			2025/26	
	Actual	Actual	5th Rev.	Prel.	5th Rev.	Proj.	Budget	Suppl. Budget I	5th Rev.	Proj.	BROP	Proj.	BROP
Revenues and grants	**16.1**	**17.6**	**16.7**	**16.7**	**18.8**	**19.0**	**18.8**	**19.0**	**18.3**	**19.1**	**19.0**	**19.5**	**19.3**
Revenue	**15.8**	**17.3**	**16.4**	**16.5**	**18.5**	**18.7**	**18.6**	**18.7**	**18.1**	**18.9**	**18.8**	**19.2**	**19.1**
Tax revenue (including unidentified tax measures)	12.7	13.9	13.1	13.2	15.1	15.1	15.1	15.0	15.2	15.2	15.1	15.6	15.5
Income tax	6.2	6.9	6.3	6.6	7.4	7.4	7.4	7.4	7.3	7.3	7.3	7.4	7.5
Personal income	3.2	3.6	3.1	3.5	3.8	3.8	3.8	3.8	3.7	3.7	3.8	3.7	3.9
Corporate income	2.9	3.3	3.2	3.1	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.7	3.6
Import duty (net)	1.0	0.9	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Excise duty	1.9	2.0	1.9	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.3
Value-added tax	3.6	4.1	3.9	3.9	4.4	4.4	4.4	4.4	4.3	4.3	4.5	4.3	4.6
Domestic	1.8	1.9	2.0	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.2	2.1
Imports	1.9	2.2	1.9	1.9	2.2	2.2	2.2	2.2	2.1	2.1	2.4	2.1	2.5
Nontax revenue	3.1	3.4	3.4	3.3	3.5	3.7	3.5	3.7	2.9	3.7	3.6	3.6	3.6
Investment income	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Ministerial and Departmental Fees (AIA)	1.7	1.9	2.1	2.0	2.3	2.5	2.3	2.5	1.7	2.4	2.4	2.4	2.4
Railway Levy	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Grants	**0.3**	**0.2**	**0.3**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**
Project grants	0.2	0.2	0.2	0.1	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Program grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**24.4**	**23.8**	**23.7**	**22.6**	**23.3**	**23.8**	**23.3**	**24.4**	**22.3**	**22.7**	**23.5**	**22.6**	**23.0**
Recurrent expenditure (including spendig offsets)	**19.5**	**19.6**	**19.8**	**19.1**	**18.4**	**19.2**	**18.4**	**19.7**	**17.3**	**17.3**	**18.1**	**16.9**	**17.4**
Transfer to counties	3.3	2.8	3.1	2.8	2.7	2.6	2.7	2.6	2.2	2.5	2.5	2.4	2.4
Interest payments	4.4	4.5	4.9	4.8	4.8	5.4	4.8	5.7	4.9	5.2	5.4	4.8	4.9
Domestic interest	3.5	3.6	3.8	3.7	3.9	3.9	3.9	4.0	3.6	3.8	4.0	3.6	3.7
Foreign interest due	0.9	1.0	1.1	1.1	0.9	1.5	0.9	1.7	1.2	1.5	1.4	1.2	1.2
Wages and benefits (civil service)	4.4	4.1	3.8	3.8	3.6	3.6	3.6	3.6	3.5	3.6	3.6	3.5	3.5
Civil service reform	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Pensions and Other Consolidated Fund Services	1.0	1.0	1.0	0.8	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.0
Defense and NSIS	1.4	1.4	1.2	1.2	1.1	1.2	1.1	1.2	1.0	0.9	0.9	0.9	0.8
Other	5.0	5.6	5.6	5.5	5.0	5.1	5.0	5.4	4.5	3.9	4.6	4.2	4.7
of which: Emergency spending (droughts, security)		0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development and net lending	**4.9**	**4.3**	**3.9**	**3.5**	**4.9**	**4.6**	**4.8**	**4.6**	**5.0**	**5.4**	**5.4**	**5.6**	**5.6**
Domestically financed	3.4	3.0	2.6	2.5	3.1	2.9	3.1	2.9	2.9	3.2	3.2	3.5	3.5
of which: SOEs emergency funding	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign financed	1.5	1.3	1.3	1.0	1.7	1.7	1.7	1.7	2.2	2.2	2.2	2.2	2.1
of which: SGR project	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: COVID-19 vaccines		0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments to cash basis	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including measures (cash basis, incl. grants)	**-8.3**	**-6.3**	**-7.0**	**-5.6**	**-4.5**	**-4.7**	**-4.4**	**-5.3**	**-4.0**	**-3.5**	**-4.4**	**-3.1**	**-3.7**
Financing	**8.4**	**5.6**	**5.9**	**5.4**	**4.5**	**4.7**	**4.4**	**5.3**	**4.0**	**3.5**	**4.4**	**3.1**	**3.7**
Net foreign financing	2.9	0.8	2.2	1.9	2.1	1.7	1.2	2.6	1.4	1.8	1.6	1.2	0.9
Disbursements	4.0	2.3	3.9	3.5	5.4	5.7	4.5	6.1	3.1	3.8	3.5	3.8	3.0
Project loans	1.4	1.2	1.4	1.0	1.7	1.5	1.7	1.6	2.3	2.1	2.1	1.9	2.1
Program loans	1.5	1.1	1.8	1.9	1.9	3.7	1.0	3.3	0.3	1.4	0.5	0.9	0.1
of which: IMF (RCF+ EFF/ECF+RSF)	0.7	0.2	0.6	0.6	0.9	1.9	0.9	1.4	0.3	0.5	0.4	0.0	0.0
Non-concessional	1.0	0.0	0.8	0.7	1.9	0.5	1.9	1.1	0.5	0.2	0.8	1.0	0.8
Standard Gauge Railway	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-1.1	-1.5	-1.7	-1.7	-3.4	-3.9	-3.4	-3.5	-1.7	-2.0	-1.8	-2.7	-2.1
Net domestic financing	5.6	4.8	3.7	3.5	2.4	3.0	3.3	2.8	2.6	1.8	2.8	1.9	2.8
Memorandum items:													
Primary balance incl. grants	-4.0	-1.0	-1.1	-0.6	0.4	0.7	0.4	0.4	0.9	1.7	0.9	1.7	1.2
Fuel subsidies (net of Petroleum Levy resources)		0.5	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary expenditure		19.3	18.8	17.7	18.5	18.4	18.4	18.7	17.4	17.4	18.1	17.8	18.1
Expenditure carryover from previous fiscal year		0.7	1.0	0.7						0.0		0.0	
Unidentified spending offsets due to SOE supports		0.0	0.0	0.0	0.0	0.1			0.0	0.1		0.1	
RSF budget support		0.0	0.0	0.0	0.2	0.2			0.3	0.4			
Net domestic financing (before RSF)			3.7	3.5	2.6	3.2			2.8	2.1			
Debt Service (DS) Relief	0.4	0.0	0.0	0.0	0.0	0.0			0.0	0.0		0.0	
Repayment	0.0	0.0	0.1	0.0	0.1	0.1			0.1	0.1		0.1	
Total gross public debt, gross	68.4	67.6	72.0	72.0	70.1	78.1			68.6	73.0		69.9	
external debt	35.5	33.8	38.2	38.2	38.1	45.1			37.4	41.6		39.8	
domestic debt	32.8	33.8	33.8	33.8	31.9	33.0			31.2	31.3		30.2	
Total net public debt	63.4	64.3	69.1	69.3	67.5	75.7			66.3	70.8		68.0	
Unidentified tax policy measures	0.0	0.0	0.0	0.0	0.0	0.0			0.3	0.3		0.4	
Unidentified spending adjustments	0.0	0.0	0.0	0.0	0.0	-0.3			0.0	-1.2		-0.5	
Pending bills[3]	0.2	1.2	1.0	0.7	0.0	0.0			0.0	0.0		0.0	
Government deposits	4.9	3.3											

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

[1] Fiscal year runs from July to June. BROP stands for Budget Review and Outlook Paper.

[2] 5th Rev. figures refer to those in the Supplement to the staff report for the 5th EFF/ECF reviews.

[3] 5th Rev. column for FY2022/23 reports estimated accumulated unpaid bills that explain the difference between overall balance and financing.

Table 3. Kenya: Monetary Survey December 2020–December 2024

	Dec-20	Dec-21	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
	Act.	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In billions of Kenyan Shillings; end of period)										
Central Bank of Kenya (CBK)											
Net foreign assets	738	701	537	434	617	516	664	590	467	505	471
Net domestic assets	-269	-179	-23	75	-129	71	-117	-46	90	108	136
Net domestic credit	33	147	337	497	424	627	476	605	775	782	810
Government (net)	-32	67	207	362	323	459	457	551	718	713	757
Of which: on-lending and transfer of IMF resources[1]	85	195	350	401	423	479	476	571	738	733	777
Commercial banks (net)	61	76	127	131	97	164	16	50	53	65	49
Private sector (net)	3	3	4	4	4	4	4	4	4	4	4
Other items (net)	-301	-326	-360	-376	-553	-556	-593	-651	-685	-673	-673
Reserve money (RM)	470	522	514	509	488	587	547	544	557	613	608
Currency in circulation	234	253	259	253	258	267	221	207	209	254	237
Bank reserves	236	268	255	256	230	320	326	337	348	360	371
Other depository corporations											
Net foreign assets	8	-110	-254	-125	-25	192	137	-56	-110	-116	-116
Reserves	236	268	255	256	230	320	326	337	348	360	371
Credit to CBK	-61	-76	-127	-131	-97	-164	-16	-50	-53	-65	-49
Net domestic assets	3,507	3,850	4,401	4,416	4,671	4,680	4,490	4,881	5,179	5,343	5,355
Net domestic credit	4,274	4,806	5,225	5,333	5,493	5,615	5,595	5,636	5,644	5,852	5,914
Government (net)	1,375	1,656	1,713	1,697	1,761	1,744	1,684	1,616	1,521	1,629	1,591
Other public sector (net)	91	100	82	92	84	101	101	101	101	101	101
Private sector (net)	2,808	3,050	3,430	3,543	3,649	3,770	3,810	3,920	4,022	4,122	4,222
Other items (net)	-767	-956	-824	-916	-822	-934	-1,104	-755	-465	-509	-559
Total deposits	3,691	3,931	4,221	4,372	4,721	4,973	5,071	5,243	5,417	5,591	5,767
Monetary survey											
Net foreign assets	747	590	283	309	591	709	801	534	357	389	355
Net domestic assets	3,244	3,645	4,251	4,360	4,446	4,587	4,357	4,784	5,216	5,386	5,442
Net domestic credit	4,246	4,877	5,435	5,698	5,820	6,078	6,055	6,191	6,366	6,569	6,675
Government (net)	1,343	1,724	1,920	2,059	2,084	2,203	2,141	2,167	2,240	2,342	2,348
Other public sector (net)	91	100	82	92	84	101	101	101	101	101	101
Private sector (net)	2,811	3,053	3,434	3,547	3,653	3,774	3,814	3,924	4,025	4,126	4,226
Other items (net)	-1,002	-1,232	-1,184	-1,338	-1,374	-1,490	-1,497	-1,508	-1,513	-1,511	-1,511
M1	1,720	1,848	1,967	1,886	2,098	2,017	1,965	2,026	2,123	2,200	2,208
Money and quasi-money (M2)	3,250	3,432	3,613	3,611	3,852	3,898	3,862	3,966	4,105	4,223	4,272
M2 plus resident foreign currency deposits (M3)	3,991	4,235	4,534	4,669	5,037	5,296	5,158	5,318	5,573	5,775	5,797
M3 plus nonbank holdings of government debt (L)	5,665	6,202	6,893	7,094	7,563	7,915	7,846	8,086	8,428	8,655	8,760
Memorandum items	(Annual percentage change, unless otherwise indicated)										
RM	1.9	11.0	-1.4	6.1	-5.9	5.9	6.4	6.9	14.1	4.4	11.1
M2	11.9	5.6	5.3	5.9	8.5	9.7	6.9	9.8	6.6	8.3	10.6
M3	13.2	6.1	7.1	10.6	13.4	19.5	13.8	13.9	10.6	9.0	12.4
L	17.3	9.5	11.1	12.5	14.1	18.2	13.8	14.0	11.4	9.3	11.6
Deposits	12.0	6.5	7.4	11.0	13.7	20.0	20.1	19.9	14.7	12.4	13.7
Net domestic credit	17.0	14.9	11.4	13.4	12.2	13.8	11.4	8.7	9.4	8.1	10.2
Government (net, monetary survey)	42.7	28.3	11.4	17.1	13.0	16.0	11.5	5.3	7.5	6.3	9.7
Private sector (net)	8.4	8.6	12.5	11.6	12.2	12.2	11.1	10.6	10.2	9.3	10.8
Net domestic assets (NDA) of the banking sector	14.1	9.8	14.3	11.3	11.8	9.6	2.0	10.5	10.9	14.2	19.2
NDA growth (as percent of the base period M3)	12.3	8.6	13.0	10.6	11.1	9.2	2.0	9.9	10.1	12.5	16.7
Multiplier (M2/RM; ratio)	6.9	6.6	7.0	7.1	7.9	6.6	7.1	7.3	7.4	6.9	7.0
Multiplier (M3/RM; ratio)	8.5	8.1	8.8	9.2	10.3	9.0	9.4	9.8	10.0	9.4	9.5
Velocity (GDP/M2; ratio)	3.5	3.5	3.7	3.8	3.7	3.8	3.9	3.9	3.9	3.9	4.0
Velocity (GDP/M3; ratio)	2.8	2.8	3.0	3.0	2.8	2.8	2.9	2.9	2.9	2.9	2.9

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

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

Table 4a. Kenya: Summary Balance of Payments, 2021–28

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

	2021	2022	2023		2024		2025		2026		2027		2028
	Act.	Act.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	Proj.
Current account	-5,744	-5,881	-5,447	-4,388	-5,699	-3,992	-6,050	-4,462	-6,441	-4,829	-6,839	-5,209	-5,443
Merchandise trade	-11,065	-11,704	-11,095	-9,318	-11,741	-9,105	-12,463	-9,710	-13,440	-10,405	-14,541	-11,310	-12,140
Exports f.o.b.	6,789	7,419	8,163	7,286	8,975	8,005	9,874	8,657	10,715	9,295	11,629	9,997	10,747
Imports f.o.b.	17,854	19,123	19,258	16,604	20,717	17,110	22,337	18,367	24,156	19,700	26,170	21,307	22,886
Energy	3,280	5,053	4,478	4,372	4,454	4,415	4,444	4,551	4,479	4,780	4,535	4,854	5,133
Non-energy	14,574	14,070	14,780	12,232	16,263	12,696	17,894	13,816	19,677	14,920	21,635	16,453	17,754
Services	1,037	1,154	1,561	992	1,796	1,239	1,990	1,479	2,258	1,544	2,653	1,752	2,037
Credit, *of which*	5,036	6,423	6,957	6,096	7,659	6,642	8,452	7,371	9,295	8,117	10,218	8,888	9,723
Transportation	1,646	2,296	2,520	1,688	2,757	1,787	3,002	2,011	3,248	2,168	3,516	2,294	2,473
Travel receipts	844	1,101	1,206	1,161	1,315	1,245	1,420	1,315	1,533	1,423	1,656	1,539	1,663
Debit, *of which*	3,999	5,269	5,396	5,104	5,863	5,403	6,462	5,891	7,037	6,573	7,565	7,136	7,686
Transportation	1,568	2,136	1,930	1,664	2,091	1,657	2,149	1,620	2,246	1,832	2,309	1,938	1,941
Primary income	-1,835	-1,823	-2,763	-2,723	-3,002	-3,005	-3,350	-3,558	-3,587	-3,677	-3,868	-3,850	-4,166
Credit	62	19	73	118	126	232	174	347	221	355	275	386	405
Debit	1,896	1,841	2,837	2,842	3,128	3,238	3,524	3,905	3,808	4,032	4,143	4,237	4,571
Secondary income, *of which*	6,119	6,491	6,851	6,662	7,249	6,880	7,773	7,327	8,329	7,710	8,917	8,199	8,826
Remittances	3,770	4,067	4,412	4,231	4,766	4,425	5,149	4,730	5,561	5,057	6,004	5,406	5,837
Capital account	196	142	200	200	200	200	200	200	200	200	200	200	200
Financial account[1]	-3,896	-3,579	-2,530	-2,147	-4,835	-606	-6,880	-4,063	-7,394	-4,755	-8,097	-6,122	-6,826
Direct investment, net	-53	-339	-751	-275	-1,024	-726	-1,334	-1,033	-1,738	-1,438	-1,943	-1,644	-1,917
Assets	410	53	100	100	100	100	100	100	100	100	100	100	50
Liabilities	-463	-392	-851	-375	-1,124	-826	-1,434	-1,134	-1,838	-1,538	-2,043	-1,744	-1,967
Portfolio investment, net, *of which*	204	700	583	223	868	2,255	387	-32	893	-154	544	75	0
Assets	1,041	469	729	369	1,000	386	1,000	386	1,000	552	1,000	386	-85
Liabilities	-837	231	-146	-146	-131	1,869	-613	-418	-107	-706	-456	-311	85
Eurobonds (net)	-1,000	0	0	0	0	2,000	-495	-300	0	-600	-345	-200	375
Issuance	-1,000	0	0	0	-2,000	0	-795	-600	-300	-900	-645	-500	-625
Amortization	0	0	0	0	2,000	2,000	300	300	300	300	300	300	1,000
Financial derivatives, net	23	-20	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	-4,069	-3,920	-2,362	-2,096	-4,679	-2,135	-5,933	-2,998	-6,549	-3,163	-6,698	-4,554	-4,909
Assets	105	-765	-250	-120	500	250	500	500	500	500	250	500	500
Liabilities, *of which*	-4,174	-3,155	-2,112	-1,976	-5,179	-2,385	-6,433	-3,498	-7,049	-3,663	-6,947	-5,054	-5,409
Public sector loans (excl. official budget support) (net)	257	193	-457	-180	-734	-129	-338	212	-2,101	-504	-1,970	-765	-2,270
Issuance[2]	-1,195	-1,607	-2,369	-2,161	-2,652	-2,049	-2,792	-2,126	-3,716	-2,283	-3,615	-2,653	-3,733
Amortization	1,453	1,800	1,912	1,981	1,918	1,920	2,454	2,338	1,615	1,779	1,644	1,888	1,463
SDR allocation	-740	0	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	493	-897	0	0	0	0	0	0	0	0	0	0	0
Overall balance ("+" indicates a surplus)	-1,159	-3,057	-2,717	-2,040	-663	-3,186	1,031	-198	1,154	127	1,458	1,114	1,584
Financing	1,159	3,057	2,717	2,040	663	3,186	-1,031	198	-1,154	-127	-1,458	-1,114	-1,584
Reserve assets (without RSF)[2]	-1,159	1,528	691	461	-1,183	-92	-1,206	-855	-877	-853	-1,082	-742	-982
Program financing	1,814	1,533	1,965	1,579	1,482	3,278	53	1,053	-277	726	-376	-371	-602
IMF EFF/ECF (net)	847	619	700	380	482	1,728	53	53	-277	-274	-376	-371	-602
of which, IMF EFF/ECF purchases and disbursements	980	673	729	409	482	1,728	165	163	0	0	0	0	0
BoP support	...	...	219	108	219	325	110	109	0	0	0	0	0
Budget support	980	673	510	300	263	1,403	55	55	0	0	0	0	0
Official budget support (other)	968	913	1,265	1,199	1,000	1,550	0	1,000	0	1,000	0	0	0
of which, Unidentified financing	0	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing	504	-4	0	0	0	0	0	0	0	0	0	0	0
of which, DSSI	504	0	0	0	0	0	0	0	0	0	0	0	0
Residual Gap				0		0		0		0		0	
IMF RSF (net)	...	...	61	0	365	421	122	121	0	0	0	0	0
of which, IMF RSF disbursements	...	...	61	0	365	421	122	121	0	0	0	0	0
Reserve assets (with RSF)[2]	...	...	...	461		-513		-975		-853		-742	-982
Memorandum items:													
Gross international reserves (USD million)	9,514	8,013	7,278	7,554	8,461	8,067	9,667	9,042	10,544	9,895	11,626	10,638	11,619
In months of next year's imports of goods and services	4.7	4.4	3.3	4.0	3.5	4.0	3.7	4.1	3.8	4.2	3.9	4.2	4.2
Gross international reserves excl. RSF (USD million)	...	8,013	7,217	7,554	8,035	7,646	9,119	8,501	9,996	9,354	11,078	10,096	11,078
In months of next year's imports of goods and services	...	4.4	3.3	4.0	3.3	3.8	3.5	3.9	3.6	3.9	3.7	4.0	4.2
Gross international reserves excl. RSF and 5th review augm. (USD million)	...	8,013	6,998	7,445	7,598	7,213	8,572	7,959	9,449	8,812	10,531	9,554	10,536
In months of next year's imports of goods and services	...	4.4	3.2	4.0	3.2	3.6	3.3	3.6	3.4	3.7	3.5	3.8	3.8
Current account (CA) (percent of GDP)	-5.2	-5.2	-4.8	-4.05	-5.0	-4.1	-5.0	-4.2	-5.0	-4.2	-5.0	-4.2	-4.1
CA excl. energy imports (percent of GDP)	-2.2	-0.7	-0.9	0.0	-1.1	0.4	-1.3	0.1	-1.5	0.0	-1.7	-0.3	-0.2
Energy imports (percent of GDP)	3.0	4.5	4.0	4.0	3.9	4.5	3.6	4.3	3.5	4.2	3.3	4.0	3.9
Merchandize exports growth (percent)	12.2	9.3	10.0	-1.8	10.0	9.9	10.0	8.2	8.5	7.4	8.5	7.6	7.5
Merchandize imports growth (percent)	24.1	7.1	0.6	-13.2	7.6	3.0	7.8	7.3	8.1	7.3	8.3	8.2	7.4
Energy (percent)	59.4	54.0	-11.5	-13.5	-0.6	1.0	-0.2	3.1	0.8	5.0	1.3	1.6	5.7
Non-energy (percent)	18.2	-3.5	5.0	-13.1	10.0	3.8	10.0	8.8	10.0	8.0	10.0	10.3	7.9
Travel receipts growth (percent)	55.9	30.5	9.0	5.4	9.0	7.3	8.0	5.6	8.0	8.2	8.0	8.2	8.0
Remittances growth (percent)	21.3	7.9	8.0	4.0	8.0	4.6	8.0	6.9	8.0	6.9	8.0	6.9	8.0

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

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

[2] Negative entries reflect an increase in assets.

Table 4b. Kenya: Summary Balance of Payments, 2021–28

(In percent of GDP)

	2021	2022	2023		2024		2025		2026		2027		2028
	Act.	Act.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	Proj.
Current account	-5.2	-5.2	-4.8	-4.0	-5.0	-4.1	-5.0	-4.2	-5.0	-4.2	-5.0	-4.2	-4.1
Merchandise trade	-10.1	-10.3	-9.8	-8.6	-10.2	-9.3	-10.2	-9.1	-10.4	-9.1	-10.6	-9.2	-9.2
Exports f.o.b.	6.2	6.5	7.2	6.7	7.8	8.1	8.1	8.1	8.3	8.1	8.5	8.1	8.2
Imports f.o.b.	16.3	16.9	17.1	15.3	18.0	17.4	18.3	17.3	18.6	17.2	19.1	17.3	17.4
Energy	3.0	4.5	4.0	4.0	3.9	4.5	3.6	4.3	3.5	4.2	3.3	4.0	3.9
Non-energy	13.3	12.4	13.1	11.3	14.1	12.9	14.7	13.0	15.2	13.0	15.8	13.4	13.5
Services	0.9	1.0	1.4	0.9	1.6	1.3	1.6	1.4	1.7	1.3	1.9	1.43	1.5
Credit, *of which*	4.6	5.7	6.2	5.6	6.7	6.7	6.9	6.9	7.2	7.1	7.4	7.2	7.4
Transportation	1.5	2.0	2.2	1.6	2.4	1.8	2.5	1.9	2.5	1.9	2.6	1.9	1.9
Travel receipts	0.8	1.0	1.1	1.1	1.1	1.3	1.2	1.2	1.2	1.2	1.2	1.3	1.3
Debit	3.6	4.6	4.8	4.7	5.1	5.5	5.3	5.5	5.4	5.7	5.5	5.8	5.8
Primary income	-1.7	-1.6	-2.4	-2.5	-2.6	-3.1	-2.7	-3.3	-2.8	-3.2	-2.8	-3.1	-3.2
Credit	0.1	0.0	0.1	0.1	0.1	0.2	0.1	0.3	0.2	0.3	0.2	0.3	0.3
Debit	1.7	1.6	2.5	2.6	2.7	3.3	2.9	3.7	2.9	3.5	3.0	3.4	3.5
Secondary income, *of which*	5.6	5.7	6.1	6.1	6.3	7.0	6.4	6.9	6.4	6.7	6.5	6.7	6.7
Remittances	3.4	3.6	3.9	3.9	4.1	4.5	4.2	4.4	4.3	4.4	4.4	4.4	4.4
Capital account	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Financial account[1]	-3.6	-3.2	-2.2	-2.0	-4.2	-0.6	-5.6	-3.8	-5.7	-4.1	-5.9	-5.0	-5.2
Direct investment, net	0.0	-0.3	-0.7	-0.3	-0.9	-0.7	-1.1	-1.0	-1.3	-1.3	-1.4	-1.3	-1.5
Assets	0.4	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Liabilities	-0.4	-0.3	-0.8	-0.3	-1.0	-0.8	-1.2	-1.1	-1.4	-1.3	-1.5	-1.4	-1.5
Portfolio investment, net, *of which*	0.2	0.6	0.5	0.2	0.8	2.3	0.3	0.0	0.7	-0.1	0.4	0.1	0.0
Assets	0.9	0.4	0.6	0.3	0.9	0.4	0.8	0.4	0.8	0.5	0.7	0.3	-0.1
Liabilities	-0.8	0.2	-0.1	-0.1	-0.1	1.9	-0.5	-0.4	-0.1	-0.6	-0.3	-0.3	0.1
Eurobonds (net)	-0.9	0.0	0.0	0.0	0.0	2.0	-0.4	-0.3	0.0	-0.5	-0.3	-0.2	0.3
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-3.7	-3.5	-2.1	-1.9	-4.1	-2.2	-4.9	-2.8	-5.0	-2.8	-4.9	-3.7	-3.7
Assets	0.1	-0.7	-0.2	-0.1	0.4	0.3	0.4	0.5	0.4	0.4	0.2	0.4	0.4
Liabilities, *of which*	-3.8	-2.8	-1.9	-1.8	-4.5	-2.4	-5.3	-3.3	-5.4	-3.2	-5.1	-4.1	-4.1
Public sector loans (excl. official budget support) (net)	0.2	0.2	-0.4	-0.2	-0.6	-0.1	-0.3	0.2	-1.6	-0.4	-1.4	-0.6	-1.7
SDR allocation	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.4	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance ("+" indicates a surplus)	-1.1	-2.7	-2.4	-1.9	-0.6	-3.2	0.8	-0.2	0.9	0.1	1.1	0.9	1.2
Financing	1.1	2.7	2.4	1.9	0.6	3.2	-0.8	0.2	-0.9	-0.1	-1.1	-0.9	-1.2
Reserve assets (without RSF)[2]	-1.1	1.3	0.6	0.4	-1.0	-0.1	-1.0	-0.8	-0.7	-0.7	-0.8	-0.6	-0.7
Program financing	1.7	1.4	1.7	1.5	1.3	3.3	0.0	1.0	-0.2	0.6	-0.3	-0.3	-0.5
IMF EFF/ECF (net)	0.8	0.5	0.6	0.4	0.4	1.8	0.0	0.0	-0.2	-0.2	-0.3	-0.3	-0.5
of which , IMF EFF/ECF purchases and disbursements	0.9	0.6	0.6	0.4	0.4	1.8	0.1	0.2	0.0	0.0	0.0	0.0	0.0
BoP support	...	...	0.2	0.1	0.2	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Budget support	0.9	0.6	0.5	0.3	0.2	1.4	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Official budget support (other)	0.9	0.8	1.1	1.1	0.9	1.6	0.0	0.9	0.0	0.9	0.0	0.0	0.0
of which , Unidentified financing	0	0	0.0	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0
Exceptional financing	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which , DSSI	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual Gap				0.0		0.0		0.0		0.0		0.0	
IMF RSF (net)	...	...	0.1	0.0	0.3	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
of which , IMF RSF disbursements	...	...	0.1	0.0	0.3	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Reserve assets (with RSF)[2]				0.4		-0.5		-0.9		-0.7		-0.6	
Memorandum items:													
Gross international reserves	8.7	7.1	6.5	7.0	7.4	8.2	7.9	8.5	8.1	8.6	8.5	8.7	8.8

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

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

[2] Negative entries reflect an increase in assets.

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

(In percent)

	Mar-20	Dec-20	Jun-21	Dec-21	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Capital adequacy										
Regulatory capital to risk-weighted assets	18.5	19.2	18.9	19.6	18.8	19.0	19.0	18.4	18.6	18.6
Regulatory tier 1 capital to risk-weighted assets	16.4	16.7	16.5	16.7	16.0	16.2	16.1	15.5	15.4	15.3
Tier 1 capital to total assets	12.3	12.3	12.0	12.1	11.8	11.9	12.0	11.7	11.6	11.0
Asset quality										
Non-performing loans to total gross loans[1]	10.2	11.9	11.6	10.9	12.5	11.4	11.1	11.8	12.2	12.7
Bank provisions to NPLs	44.8	51.9	56.2	54.1	43.3	44.2	43.3	40.4	38.1	39.2
Non-performing loans net of provisions to capital	22.2	21.6	19.6	18.4	27.3	24.5	23.9	27.6	29.2	30.6
Earning and profitability										
Return on assets (ROA)	3.0	2.1	3.3	3.3	3.7	3.9	3.7	3.7	3.4	3.3
Return on equity (ROE)	20.4	14.5	23.4	22.9	26.5	27.5	26.7	27.2	25.2	24.9
Non-interest expenses to gross income	50.1	50.1	46.0	46.8	45.1	44.4	45.2	46.3	46.9	47.1
Liquidity										
Liquid assets to total assets	38.3	40.8	41.1	41.9	39.8	39.0	39.0	38.1	39.0	39.7
Liquid assets to total deposits	59.6	64.2	65.7	67.7	63.4	63.4	64.0	62.3	62.2	62.5
Total loans to total deposits	85.4	83.5	84.9	83.7	85.2	87.4	87.8	89.2	86.3	83.5
Sensitivity to market risk										
FX currency denominated liabilities to total liabilities	26.2	28.0	28.4	29.0	29.8	30.1	31.5	32.7	33.5	34.9
Spread between lending and deposit rate	5.1	5.7	5.7	5.7	5.6	5.6	5.5	5.4	5.5	5.1

Source: Kenyan authorities.

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

Table 6. Kenya: External Financing Requirements and Sources, 2021–28

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

		2021	2022	2023		2024		2025		2026		2027		2028
		Act.	Act.	5th Rev	Proj.	5th Rev	Proj.	5th Rev	Proj.	5th Rev.	Proj.	5th Rev.	Proj.	Proj.
(1)	**Gross financing requirements**	**7,430**	**7,870**	**7,523**	**6,532**	**9,752**	**8,046**	**9,051**	**7,345**	**8,767**	**7,317**	**9,295**	**7,903**	**8,643**
	Current account deficit (excl. grants)	5,844	6,016	5,582	4,523	5,834	4,126	6,185	4,597	6,576	4,964	6,974	5,344	5,578
	Amortization of public sector loans (excl. IMF total repurchases and repayments)	1,453	1,800	1,912	1,981	1,918	1,920	2,454	2,338	1,615	1,779	1,644	1,888	1,463
	Amortization of sovereign bonds	0	0	0	0	2,000	2,000	300	300	300	300	300	300	1,000
	IMF total repurchases and repayments	133	54	29	29	0	0	112	110	277	274	376	371	602
(2)	**Change in reserves excluding IMF RSF (+ = increase)**	**1,159**	**-1,528**	**-752**	**-461**	**818**	**92**	**1,084**	**855**	**877**	**853**	**1,082**	**742**	**982**
(3)	**Gross financing sources**	**5,670**	**5,656**	**4,778**	**4,464**	**9,089**	**4,861**	**9,970**	**7,037**	**9,645**	**7,170**	**10,376**	**8,645**	**9,624**
	FDI, net	53	339	751	275	1,024	726	1,334	1,033	1,738	1,438	1,943	1,644	1,917
	Public grants	100	135	135	135	135	135	135	135	135	135	135	135	135
	Public sector borrowing (excl. program financing)	1,898	1,607	2,369	2,161	2,652	2,049	2,792	2,126	3,716	2,283	3,615	2,653	3,733
	of which, Unidentified prospective financing	-38	0	0	0	0	0	0	0	0	0	0	0	0
	of which , SDR allocation	740	0	0	0	0	0	0	0	0	0	0	0	0
	Syndicated bank loans	0	298	541	1,041	0	0	0	0	761	141	661	3	923
	Issuance of sovereign bonds	1,000	0	0	0	2,000	0	795	600	300	900	645	500	625
	Private capital flows, net	2,619	3,576	1,522	1,893	3,277	1,952	4,914	3,142	3,756	2,414	4,039	3,714	3,214
(4)	**Errors and omissions**	**493**	**-897**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
(1)+(2)-(3)-(4)	**Total financing needs**	**2,427**	**1,582**	**1,994**	**1,608**	**1,482**	**3,278**	**165**	**1,163**	**0**	**1,000**	**0**	**0**	**0**
(5)+(6)	**Total financing sources**	**2,452**	**1,582**	**1,994**	**1,608**	**1,482**	**3,278**	**165**	**1,163**	**0**	**1,000**	**0**	**0**	**0**
(5)	Program financing	1,947	1,586	1,994	1,608	1,482	3,278	165	1,163	0	1,000	0	0	0
	IMF EFF/ECF purchases and disbursements	980	673	729	409	482	1,728	165	163	0	0	0	0	0
	BoP support	...	...	219	108	219	325	110	109	0	0	0	0	0
	Budget support	980	673	510	300	263	1,403	55	55	0	0	0	0	0
	Official budget support (other)	968	913	1,265	1,199	1,000	1,550	0	1,000	0	1,000	0	0	0
	Unidentified external financing	0	0	0	0	0	0	0	0	0	0	0	0	0
(6)	Exceptional financing	504	-4	0	0	0	0	0	0	0	0	0	0	0
	of which , DSSI	504	0	0	0	0	0	0	0	0	0	0	0	0
(7)	**IMF RSF disbursements**	...	...	61	0	365	421	122	121	0	0	0	0	0
(2)+(7)	**Total change in reserves including IMF RSF (+ = increase)**	**...**	**-1,528**	**-691**	**-461**	**1,183**	**513**	**1,206**	**975**	**877**	**853**	**1,082**	**742**	**982**
	Memorandum Items													
	Gross financing requirements (in percent of GDP)	6.8	6.9	6.7	6.0	8.5	8.2	7.4	6.9	6.8	6.4	6.8	6.4	6.6
	Gross international Reserves	9,514	8,013	7,278	7,554	8,461	8,067	9,667	9,042	10,544	9,895	11,626	10,638	11,619
	In months of next year's imports of GNFS	4.7	4.4	3.3	4.0	3.5	4.0	3.7	4.1	3.8	4.2	3.9	4.2	4.2

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

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

I. Current Phasing (approved by the Board on July 17, 2023)

Availability Date	Condition	Available Purchases under GRA		Available Loans under PRGT		Total Available Purchases and Loans	
		SDR millions	Percent of quota	SDR millions	Percent of quota	SDR millions	Percent of quota
April 2, 2021	Approval of the 38-month EFF and ECF arrangements	141.13	26.00	75.99	14.00	217.12	40.00
June 20, 2021	Completion of the first EFF-ECF reviews and observance of continuous and end-March 2021 performance criteria. 1/	198.12	36.50	86.85	16.00	284.97	52.50
November 7, 2021	Completion of the second EFF-ECF reviews and observance of continuous and end-June 2021 performance criteria. 1/	135.70	25.00	48.85	9.00	184.55	34.00
May 7, 2022	Completion of the third EFF-ECF reviews and observance of continuous and end-December 2021 performance criteria. 1/	141.13	26.00	38.00	7.00	179.13	33.00
November 7, 2022	Completion of the fourth EFF-ECF reviews and observance of continuous and end-June 2022 performance criteria. 1/	135.70	25.00	200.84	37.00	336.54	62.00
May 7, 2023	Completion of the fifth EFF-ECF reviews and RSF approval and observance of continuous and end-December 2022 performance criteria.	229.06	42.20	77.62	14.30	306.68	56.50
November 7, 2023	Completion of the sixth EFF-ECF and first RSF reviews and observance of continuous and end June 2023 performance criteria.	173.15	31.90	62.69	11.55	235.85	43.45
May 7, 2024	Completion of the seventh EFF-ECF and second RSF reviews and observance of continuous and end December 2023 performance criteria.	173.15	31.90	62.68	11.55	235.83	43.45
October 30, 2024	Completion of the eight EFF-ECF and third RSF reviews and observance of continuous and end December 2023 performance criteria.	78.71	14.50	43.69	8.05	122.39	22.55
March 15, 2025	Completion of the ninth EFF-ECF and forth RSF reviews and observance of continuous and end December 2023 performance criteria.	78.71	14.50	43.68	8.05	122.38	22.55
Total		**1,484.56**	**273.50**	**740.89**	**136.50**	**2,225.45**	**410.00**

Source: IMF staff estimates.

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

II. Proposal

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

Source: IMF staff estimates.

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

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

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

Source: IMF staff estimates.

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

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

[2] The authorities anticipate that implementation of RM3 could take longer than originally envisaged but are not requesting a rephasing of access.

Table 8. Kenya: Indicators of Fund Credit, 2021–45

(In millions of SDR, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
			Projections																						
Existing and prospective Fund arrangements																									
Disbursements	686.6	515.7	306.7	1,617.9	213	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit [1]	1,301.4	1,766.7	2,051.8	3,669.8	3,800.1	3,596.1	3,319.9	2,873.8	2,291.4	1,726.4	1,256.0	862.5	562.8	411	364	323	283	242	201	161	120	79	39	5	0
EFF/ECF and RCF	1,301.4	1,766.7	2,051.8	3,353.2	3,393.0	3,189.0	2,912.8	2,466.7	1,884.3	1,319.4	848.9	455.4	155.8	11	0	0	0	0	0	0	0	0	0	0	0
RSF	0.0	0.0	0.0	316.6	407.1	407.1	407.1	407.1	407.1	407.1	407.1	407.1	407.1	400	364	323	283	242	201	161	120	79	38	5	0
Obligations to the Fund [2]	95.3	63.5	73.4	119.6	249.4	371.2	436.7	600.0	715.7	669.4	551.1	458.0	350.5	191.9	83.7	75.3	73.3	71.3	69.3	67.4	65.3	63.3	61.4	52.6	22.0
of which, EFF/ECF and RCF	92.8	59.6	58.7	98.2	213.7	333.9	399.3	562.6	678.4	632.0	513.8	420.7	313.2	147.9	11.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	4.0	18.3	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	26.7	55.3	57.9	55.9	53.9	51.9	50.0	47.9	46.0	44.0	35.2	4.6
	91.2	50.3	21.6	0.0	82.6	204.0	276.2	446.1	582.4	564.9	470.5	393.5	299.6	151.6	47.1	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	33.9	4.5
of which, Principal (repayments/repurchases/disbursements)																									
Charges and interest [3]	4.1	13.1	51.8	119.6	166.9	167.2	160.5	153.9	133.3	104.4	80.7	64.5	50.8	40.3	36.6	34.6	32.6	30.6	28.6	26.7	24.6	22.6	20.7	18.7	17.5
Stock of existing and prospective Fund credit [1, 4]																									
In percent of quota	239.8	325.5	378.0	676.1	700.1	662.5	611.6	529.4	422.1	318.1	231.4	158.9	103.7	75.8	67.1	59.6	52.1	44.6	37.1	29.6	22.1	14.6	7.1	0.8	0.0
In percent of GDP	1.7	2.1	2.5	5.0	4.8	4.2	3.6	2.9	2.2	1.5	1.0	0.7	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
In percent of exports of goods and services	15.4	17.0	20.4	33.3	31.5	27.5	23.4	18.7	13.6	9.5	6.3	4.0	2.4	1.6	1.3	1.0	0.8	0.6	0.5	0.4	0.2	0.1	0.1	0.0	0.0
In percent of gross international reserves	19.1	29.3	36.1	60.5	55.9	48.3	41.5	32.9	24.4	17.3	11.8	7.5	4.5	3.0	2.5	2.0	1.6	1.3	1.0	0.8	0.5	0.3	0.1	0.0	0.0
In percent of government revenue	9.9	12.0	14.0	25.9	24.4	21.3	18.4	14.9	11.1	7.8	5.3	3.4	2.1	1.4	1.2	1.0	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0
In percent of total external debt	2.5	2.9	3.3	5.6	5.5	5.0	4.4	3.7	6.8	4.9	3.4	2.3	1.4	1.0	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.0	0.0
Obligations to the Fund (repurchases and charges) [4]																									
In percent of quota	17.6	11.7	13.5	22.0	45.9	68.4	80.4	110.5	131.9	123.3	101.5	84.4	64.6	35.4	15.4	13.9	13.5	13.1	12.8	12.4	12.0	11.7	11.3	9.7	4.1
In percent of GDP	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.6	0.5	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of exports of goods and services	1.1	0.6	0.7	1.1	2.1	2.8	3.1	3.9	4.3	3.7	2.8	2.1	1.5	0.7	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
In percent of gross international reserves	1.4	1.1	1.3	2.0	3.7	5.0	5.5	6.9	7.6	6.7	5.2	4.0	2.8	1.4	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1
In percent of government revenue	0.7	0.4	0.5	0.8	1.6	2.2	2.4	3.1	3.5	3.0	2.3	1.8	1.3	0.7	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
In percent of total external debt service	4.8	2.1	2.5	2.6	6.4	10.4	11.6	14.1	19.1	16.5	13.2	10.6	7.1	4.0	1.0	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2
Memorandum items																									
Quota (millions of SDR)	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8
Gross domestic product, baseline (million of U.S. dollars)	109,704	113,420	108,436	98,398	106,317	114,768	122,852	131,684	141,188	151,345	162,297	174,011	186,619	199,846	214,094	229,349	245,834	263,496	282,344	302,659	324,540	347,703	372,056	399,509	428,273
Exports of goods and services (million of U.S. dollars)	11,825	13,842	13,382	14,647	16,028	17,411	18,886	20,470	22,334	24,182	26,400	28,820	31,491	34,556	37,893	41,554	45,378	49,561	54,270	59,294	64,800	70,976	77,576	84,819	92,750
Gross international reserves (million of US dollars)	9,514	8,013	7,554	8,067	9,042	9,895	10,638	11,619	12,479	13,229	14,205	15,283	16,567	17,994	19,596	21,295	23,147	25,179	27,375	28,048	32,255	34,673	37,814	40,946	44,344
Government revenue (million of U.S. dollars)	18,451	19,575	19,434	18,804	20,703	22,420	23,958	25,688	27,540	29,525	31,656	33,942	36,373	38,961	41,742	44,725	47,917	51,331	54,988	58,909	63,174	67,778	72,575	78,011	79,519
Total external debt service (million of U.S. dollars)	2,867	3,299	3,926	6,223	5,211	4,795	5,062	5,732	5,058	5,461	5,619	5,835	6,625	6,257	6,493	7,243	6,964	8,238	8,239	8,702	8,905	8,788	9,435	9,983	9,848
Total external debt (million of U.S. dollars)	74,185	79,830	83,385	87,048	91,898	96,888	101,771	106,203	45,392	47,309	49,290	51,007	52,646	55,233	57,610	59,280	61,608	62,894	64,412	65,947	67,488	66,167	61,061	55,453	50,019

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

[1] End of period.

[2] Repayment schedule based on scheduled debt service obligations.

[3] Using the GRA rate of charge of 4.151 (as of December 7, 2023).

[4] Using the USD/SDR rate of 1.32911 as of December 11, 2023 in 2023–45 forecasts.

Table 9. Kenya: Decomposition of Public Debt and Debt Service by Creditor, 2022–25[1]

	Debt Stock (end of period)			Debt Service					
	2022			2023	2024	2025	2023	2024	2025
	(In US$ mln)	*(Percent total debt)*	*(Percent GDP)* [2]	*(In US$ mln)*			*(Percent GDP)*		
Total	**73,625**	**100.0**	**67.9**	**10,804**	**10,449**	**8,318**	**10.0**	**10.6**	**7.8**
External	**37,370**	**50.8**	**34.5**	**3,392**	**5,149**	**3,723**	**3.1**	**5.2**	**3.5**
Multilateral creditors	17,474	23.7	15.4	642	638	786	0.6	0.6	0.7
IMF	2,399	3.3	2.1	-	-	-	-	-	-
World Bank	11,086	15.1	9.7	-	-	-	-	-	-
African Development Bank	3,492	4.7	3.1	-	-	-	-	-	-
European Economic Community (incl. EIB)	177	0.2	0.2	-	-	-	-	-	-
International Fund For Agricultural Development	225	0.3	0.2	-	-	-	-	-	-
Other Multilaterals	96	0.1	0.1	-	-	-	-	-	-
o/w: Arab Bank For Economic Development In Africa	45	0.1	0.0	-	-	-	-	-	-
Nordic Development Fund	23	0.0	0.0	-	-	-	-	-	-
Bilateral Creditors	10,497	14.3	9.2	1,447	1,376	1,330	1.3	1.4	1.3
Paris Club	3,793	5.2	3.3	430	398	383	0.4	0.4	0.4
o/w: Japan	1,403	1.9	1.2	-	-	-	-	-	-
France (incl. AFD)	774	1.1	0.7	-	-	-	-	-	-
Non-Paris Club	6,705	9.1	5.9	1,017	978	946	0.9	1.0	0.9
o/w: EXIM China	6,557	8.9	5.8	-	-	-	-	-	-
EXIM India	61	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	9.6	6.2	515	2,444	667	0.5	2.5	0.6
Commercial creditors	1,881	2.6	1.7	680	537	698	0.6	0.5	0.7
o/w: Trade and Development Bank	1,728	2.3	1.5	-	-	-	-	-	-
China Development Bank	88	0.1	0.1	-	-	-	-	-	-
Other international creditors	418	0.6	0.4	73	61	50	0.1	0.1	0.0
o/w: Intesa SanPaolo	235	0.3	0.2	-	-	-	-	-	-
ING Bank Germany	23	0.0	0.0	-	-	-	-	-	-
Domestic[3]	**36,254**	**49.2**	**33.5**	**7,412**	**5,301**	**4,596**	**6.8**	**5.4**	**4.3**
Held by non-residents, total	257	0.3	0.2	-	-	-	-	-	-
T-Bills	5,587	7.6	4.9	-	-	-	-	-	-
Bonds	30,076	40.9	26.5	-	-	-	-	-	-
Loans	591	0.8	0.5	-	-	-	-	-	-
Memo items:									
Collateralized debt	0	0.0	0.0	-	-	-	-	-	-
o/w: Related	0	0.0	0.0	-	-	-	-	-	-
o/w: Unrelated	0	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Public guarantees[4]	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Other explicit contingent liabilities[5, 6]	n.a.	n.a.	n.a.	-	-	-	-	-	-

Sources: Kenyan authorities; and IMF staff calculations.

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

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

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

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

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

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

Table 10. Kenya: Decomposition of Public Debt, 2022–25[1]
(In millions of U.S. dollars, unless otherwise indicated)

	Actual	Projections		
	2022	2023	2024	2025
	(In US$ mln)		*(In US$ mln)*	
Creditor profile				
Total	**73,625**	**70,822**	**70,962**	**73,856**
External	**37,370**	**39,152**	**41,032**	**42,429**
Multilateral creditors	17,474	19,374	23,414	24,936
IMF	2,399	2,778	4,927	5,098
World Bank	11,086	12,585	14,567	16,021
African Development Bank	3,492	3,538	3,474	3,401
Other Multilaterals	498	472	445	415
Bilateral Creditors	10,497	9,901	10,202	10,536
Paris Club	3,793	3,665	3,969	4,298
Non-Paris Club	6,705	6,236	6,233	6,238
Private creditors	9,399	9,878	7,416	6,957
Bonds	7,100	7,100	5,100	5,400
Commercial creditors	2,299	2,778	2,316	1,557
Domestic	**36,254**	**31,670**	**29,930**	**31,427**
Memorandum items				
Collateralized debt	0	0	0	0
o/w: Related	0	0	0	0
o/w: Unrelated	0	0	0	0
Multilateral and collateralized debt [2]				
Multilateral debt				
Percent of external debt	46.8	49.5	57.1	58.8
Percent of GDP	15.4	17.9	23.8	23.5
o/w: IMF and WB				
Percent of external debt	36.1	39.2	47.5	49.8
Percent of GDP	11.9	14.2	19.8	19.9
o/w: African Development Bank				
Percent of external debt	9.3	9.0	8.5	8.0
Percent of GDP	3.1	3.3	3.5	3.2
o/w: Other multilateral				
Percent of external debt	1.3	1.2	1.1	1.0
Percent of GDP	0.4	0.4	0.5	0.4
Collateralized debt				
Percent of external debt	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0

Sources: Kenyan authorities; and IMF staff calculations.

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

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

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

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

Annex I. 2021 Article IV Consultation: Key Recommendations

Policies	Key Recommendations	Status of Implementation
Fiscal Policy	*Reduce debt vulnerabilities.* Domestic revenue mobilization, expenditure control, higher public spending efficiency and prudent borrowing are key to safeguarding development spending while reducing debt vulnerabilities.	In the past two years, under Kenya's Fund-supported EFF/ECF program, the authorities took several tax policy and administrative measures, helping improve the tax/GDP ratio by 1.2 percentage points in FY2021/22 but those gains were partly offset by a shortfall in collections in FY2022/23. The authorities have announced sizeable tax measures under the FY2023/24 budget and are undertaking additional measures to offset the impact from the weaknesses in 2023 tax collections. The authorities remain committed to further fiscal consolidation over the medium term. The authorities are finalizing several PFM initiatives that will strengthen budget process and support development spending: applying a common costing approach for all ministries, departments, and agencies (MDAs), consolidating extra-budgetary agencies, enhancing the integrated financial management system (IFMIS) to enable registration of all multi-year commitments, automating public investment management process, and implementing a strategy to clear and prevent expenditure arrears.
	Increase tax revenues. Building broad-based understanding of the key role that restoring lost ground on tax revenue plays in Kenya's strategy to reduce debt vulnerabilities remains important. The authorities' ongoing work on a medium-term revenue strategy should support identifying well-sequenced measures to deliver the anticipated 0.8–0.9 percent of GDP in tax revenue annually in FY2022/23 and FY2023/24.	The MTRS has been approved, and its implementation and ongoing revenue administration reforms—implementing risk-based compliance strategies, strengthening KRA's audit function, and facilitating timely tax refunds—will strengthen tax compliance and facilitate revenue mobilization.
	Limit fiscal risks. Advance the SOE agenda and ensure that financial vulnerabilities at the troubled SOEs are mainly covered by cost-saving reforms to protect fiscal resources for priority social and development spending and not undermine debt sustainability.	The authorities are improving monitoring and overseeing of the state corporations (SCs); updating the inventory and new classification of SCs and preparing a new ownership policy for SCs. In terms of budgetary support, the amounts received by Kenya Airways (KQ) and Kenya Power and Lighting Company (KPLC) remained well within the envelope of 1 percent of GDP over FY2021/22 and FY2022/23. The authorities have approved an action plan to restore KPLC's medium-term profitability and plug the liquidity gap. On KQ, the authorities are considering options for its restructuring.
Monetary and Exchange	*Maintain price stability.* The CBK to remain vigilant against second-round effects from shocks to inflation.	Inflation went up in 2022, breaching the authorities' target band (2.5–7.5 percent) from June as a spike in global oil prices and a rise in global food prices following the onset of war in Ukraine impacted Kenya. The CBK proactively tightened monetary policy in May 2022. By December 2023,

Policies	Key Recommendations	Status of Implementation
Rate Policy		the CBK had tightened the policy rate cumulatively by 550 basis points in six steps. Inflation moved back inside the band in July 2023.
	Enhance effectiveness of the monetary policy framework. Continue advancing the work on modernizing the monetary policy framework in line with the July 2021 *White Paper*.	In early August 2023, the CBK introduced an interest rate corridor around the policy rate for the interbank rate to help improve transmission of its monetary policy operations. In addition, it launched a Centralized Securities Depository to enhance the functioning of the money and securities markets. Implementation of risk-based loan pricing is yet to be completed across all banks.
	Maintain external sustainability. Exchange rate flexibility and steadfast implementation of the fiscal consolidation are important in keeping the external position in balance.	The exchange rate depreciated at a faster pace in 2023 after a real appreciation in 2022 due to a generalized strengthening of the U.S. dollar. As of November 2023, the real effective exchange rate was 16.4 percent depreciated from its pre-COVID-19 level in February 2020. The CBK periodically sold FX in the market until June 2023.
Financial Sector Policies	*Risk management.* Swift approvals for credit models would help avoid the perception of unnecessary constraints on lending to creditworthy borrowers.	As of August 2023, majority of the commercial banks, and close to half of the Tier 1 banks have had their risk-based pricing models approved.
Structural Policies	*Promote sustainable and inclusive growth.*	Policies are aimed at maintaining macroeconomic stability, while Kenya continues to pursue its efforts at adaptation and mitigation of climate change risks. The current administration aims to further improving inclusivity via a bottom-up approach to economic transformation.
	Improve governance. Priorities include combatting corruption through more transparent procurement practices, forensic audits, and follow-up on their findings, implementing laws establishing access to information and asset declarations of public officials, improving revenue administration and tax expenditure transparency, and strengthening risk-based AML/CFT supervision.	The authorities started publishing from November 2022 the beneficial ownership information of entities awarded public contracts through the Public Procurement Information Portal; the Access to Information Regulations were approved in August2023 and will come into effect upon re-publication; a draft Conflict of Interest Bill was submitted to Parliament in May 2023; published results of a forensic audit of COVID-19 vaccine spending up to June 2021 and a comprehensive audit of expenditures in FY2020/21 with a chapter on COVID-19 related spending; as of November 2023, an audit on the mechanism, efficiency, and effectiveness of the supplementary budgeting, including under Article 223 of the Constitution, was completed; the AML/CFT (Amendment) Act 2023 came into force in September 2023.

Annex II. Risk Assessment Matrix[1]

Sources of Risks	Likelihood	Expected Impact on Economy	Policy Response
Potential External Shocks			
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. • **U.S.:** Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction, and "hard landing". • **Europe:** Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. • **China:** Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	Medium	Medium. This could adversely impact growth, spur capital outflows from the private sector and pressure the exchange rate. Fiscal balances would worsen, including due to balance sheet scarring in the private sector, and debt vulnerabilities would rise further.	• Adopt mutually reinforcing monetary and fiscal policy stances; • Reprioritize spending to support the vulnerable while compressing overall expenditure to contain the negative fiscal-debt impact; • Greater exchange rate flexibility; • Accelerate reforms to address structural weakness affecting competitiveness.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium	High. This could trigger capital outflows from the private sector and hamper capital market access by the sovereign. The exchange rate would face depreciation pressures, the fiscal balances would worsen, and debt vulnerabilities would rise further.	• Tighten monetary policy; • Greater exchange rate flexibility; • Compress expenditure to contain the negative fiscal-debt impact;

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

Sources of Risks	Likelihood	Expected Impact on Economy	Policy Response
Sovereign debt distress. Domino effects of higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.	Medium	**High.** External financing challenges would create fiscal pressures, spur capital outflows, and FX reserves would come under pressure. Fiscal balances would worsen, including due to balance sheet scarring in the private sector, and debt vulnerabilities would rise further.	• Tighten monetary policy and adopt mutually reinforcing fiscal policy; • Greater exchange rate flexibility; • Mobilize domestic resources, protect social and developmental spending, and contain the negative fiscal-debt impact; • Accelerate reforms to address structural weakness affecting competitiveness.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	**High.** Higher commodity prices would increase external and domestic imbalances and weigh on inflation and economic growth.	• Keep domestic fuel prices aligned with global fuel prices while compressing expenditure to contain fiscal pressures; • If the shock is persistent, tighten monetary policy to ensure inflationary expectations remain well-anchored; • Greater exchange rate flexibility; • If the further shock is very large, consult with staff on the overarching objective of fiscal consolidation to reduce debt vulnerabilities.
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	**Medium.** Such sanctions could disrupt imports of fertilizer and wheat and raise borrowing costs and limit options for non-concessional external financing.	• Diversify sources of imports for key inputs and staples (e.g., fertilizer, wheat); • Deploy targeted support to most vulnerable leveraging existing assistance programs; • Consider alternative financing mixes, including medium-term syndicated loans.

Sources of Risks	Likelihood	Expected Impact on Economy	Policy Response
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Medium. This could adversely impact growth, spur capital outflows from the private sector and pressure the exchange rate.	• Reprioritize spending to support the vulnerable while compressing overall expenditure to contain the negative fiscal-debt impact; • Greater exchange rate flexibility; • Accelerate reforms to address structural weakness affecting competitiveness.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	Medium	Medium. Such attacks can trigger financial instability or widely disrupt socio-economic activities.	• Continue reforms to strengthen cyber security capabilities at both government and private sector level.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	High. This would lead to slower growth, an increase in food inflation, pressures on public spending and the current account, and adversely affect vulnerable households.	• Guard against second-round effects on inflation; • Use targeted programs to help vulnerable groups and reprioritize spending.
Potential Domestic Shocks			
Political risks.	Medium	Medium. Unrest could reemerge in connection with protests against higher cost of living, need to raise more taxes, and electoral process supported by the political opposition.	• Remain committed to reforms under the program.
Adverse weather conditions (incl. unexpected impact from El Niño)	Medium	High. Depending on the geographical area impacted this could lead to lower agricultural production and slower growth, an increase in food inflation, pressures on public spending and the current account, and adversely affect vulnerable households.	• Use targeted programs to help vulnerable groups and reprioritize spending; • As necessary, guard against second-round effects on inflation.

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

Annex III. External Sector Assessment

Overall Assessment: *The external position of Kenya in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.*

Potential Policy Responses: *Looking forward, Kenya's external position and competitiveness are expected to improve under the authorities' ambitious reform program and mutually reinforcing prudent macroeconomic policies, supported by the EFF and ECF arrangements. The programmed fiscal consolidation would help strengthen Kenya's external sector position and support private sector growth, with exchange rate flexibility allowing the economy to better absorb external shocks.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Kenya's net international investment position (NIIP) has turned negative since the mid-2000s and widened progressively, as the country embarked on an ambitious infrastructure investment strategy. Over the last five years, the NIIP widened by 17 percentage points of GDP, driven by both the public and private sectors.[1] Total external debt (loans and securities) is estimated at 75 percent of GDP at end-2023, of which 36 percent of GDP is public and 39 percent of GDP is private. Over 89 percent of external private debt is owed by the non-bank sector. Total external assets are estimated at 21.8 percent of GDP, mostly in deposits abroad and reserve assets.

Assessment. Going forward, the negative NIIP is projected to widen further to -73 percent of GDP by 2028, as per capita income continues to converge to that of upper-middle income countries affording higher returns for international investors than in their home markets.

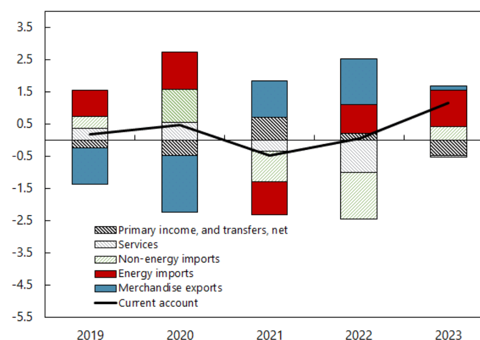
2023 (% GDP)	NIIP: -66	Gross Assets: 22	Debt Assets: 20	Gross Liab.: 88	Debt Liab.: 77

Current Account

Background. Kenya's current account (CA) deficit was 4.0 percent of GDP in 2023, significantly below the average 5 percent over the preceding three years. The current account deficit narrowed in 2023 on the back of broad-based contraction in imports, robust tourism receipts and remittances. Exports of goods underperformed with softer demand in some key export markets, while exports of transportation services fell sharply following completion of large infrastructure projects. The decline in imports was mostly due to non-energy imports, especially in machinery and equipment imports, linked to the completion of some large public investment projects and under-execution of the public external borrowing plan used to finance other investments. The observed CA dynamics are more broadly supported by greater exchange rate flexibility and the fiscal consolidation under the Fund-supported ECF/EFF program, which has helped improve the public sector saving-investment balance.

Text Figure AIII.1. Kenya: Contributions to Change in CA, 2019–2023

(y/y change, percent of GDP)



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

Assessment. The CA balance is assessed to be broadly in line with the level implied by fundamentals and desirable policies in 2023.

- The EBA-lite CA model indicates a CA gap of 0.1 percent of GDP in 2023. It is based on a CA norm of –4.6 percent of GDP and estimated cyclically adjusted CA of –4.5 percent of GDP. The latter incorporates adjustments to reflect the temporary nature of the decline in non-energy imports in 2023,

driven by the under-execution of externally financed capital spending (0.6 percentage points of GDP adjustment in the CA deficit)

- The contribution of policy gaps to the current account gap is 0.6 percent of GDP, with public health expenditures, fiscal balance, and private credit growth being the main contributors (2.9 percent of GDP, combined). The positive relative policy gap captures: 1) the relatively larger deviation of public health expenditures from its desirable policy level for the world as a whole than in Kenya, 2) the relatively less deviation of fiscal balance from its desirable level in Kenya than the world as a whole, 3) the relatively more compressed private credit growth compared with its norm in Kenya than in the world as a whole.

Text Table AIII.1. Kenya: Model Estimates for 2023

(In percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-4.0**	
Cyclical contributions (from model) (-)	-0.1	
Additional temporary/statistical factors (-) 2/	0.6	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-4.5**	
CA Norm (from model) 3/	**-4.6**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-4.6**	
CA Gap	**0.1**	**-0.8**
o/w Relative policy gap	0.6	
Elasticity	-0.1	
REER Gap (in percent)	**-1.0**	**7.6**

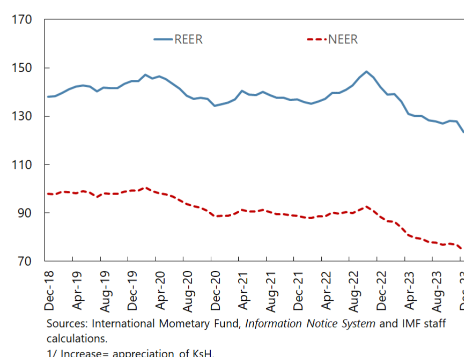
1/ Based on the EBA-lite 3.0 methodology
2/ Adjustments to reflect: The temporary nature of the decline in non-energy imports by 0.6 due to underexecution of foreign financed capital spending in 2023
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The medium-term appreciation trend in Kenya's real effective exchange rate (REER) has begun to taper off from 2020Q1, with the REER reaching to the peak of 148 in 2022Q4. REER is projected to have depreciated about 14 percent since then and is projected to have reached 128 at end-2023. The main driver of the past trend appreciation was the positive inflation differential with trading partners, as the nominal effective exchange rate (NEER) follows a depreciation path that has become more pronounced since the onset of the COVID-19 pandemic. A favorable rainy season that helped to bring down inflation to the target band and significant nominal exchange rate adjustment in 2023, resulted in a sharp reversal in REER trend from the end of last year.

Text Figure AIII.2. Kenya: Effective Exchange Rates, 2018–23[1/]

(Index 2010=100)



Sources: International Momentary Fund, *Information Notice System* and IMF staff calculations.
1/ Increase= appreciation of KsH.

Assessment. The EBA-lite REER model suggests a gap of 7.6 percent for 2023. Taking into account the results of the EBA-lite current account (CA) model, staff assesses the REER gap to be in between –1 percent and –7.6 percent, compared with the range of 4–15 percent in the last assessment based on 2022 data.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2023, Kenya's current account deficit was primarily financed by debt flows and reserve deaccumulation. Other net investment flows amounted to 1.9 percent of GDP, including some government borrowing but significantly lower private inflows due to tighter financial conditions. Market pressures since the start of the war on Ukraine and the ongoing monetary tightening in advanced countries have limited government's access to commercial borrowing. Annual FDI net inflows remained flat in 2023, averaging to less than one percent of GDP since 2018.

Assessment. The deterioration in private sector inflows and shortfall in governments commercial borrowing in the face of tighter global financial conditions have resulted in deaccumulation of reserves in 2023 despite larger than expected flows from multilateral institutions.

FX Intervention and Reserves Level

Background. In 2023, gross official reserves (7 percent of GDP) provided an adequate buffer against external shocks, covering 4 months of next year's imports of goods and services. Reserves declined since 2022, broadly in line with expectations, reflecting debt service and other payments amid bunching of external inflows to the first half of 2024 and sales via FX interventions (FXI) during the first half of 2023. Import coverage of reserves improved significantly due to sharp contraction in imports in 2023 and is expected to remain above the 3.5 months, which is also close to the value of the Fund's reserve adequacy metric for credit-constrained economies, gradually strengthening over time.

Assessment. Kenya's de facto exchange rate arrangement is crawl-like.[2] The CBK engaged in periodic FXI in the first half of 2023 to smooth volatility in the Kenyan shilling. Increasing exchange rate flexibility would help the economy better absorb potential shocks.

[1] Published International Investment Position (IIP) data is available until 2021 (see the 2023 Report). It is extrapolated for 2023 with BoP financial flows.

[2] Kenya's de jure exchange rate arrangement is free floating. The bilateral nominal exchange rate against the U.S. dollar (measured as US$ per Ksh.) depreciated by 7.6 percent y/y by end-2022 and by 20.4 percent y/y as of December 21, 2023.

Annex IV. Kenya: Strengthening Fiscal Policy Analysis Through a Public Sector Balance Sheet Approach

1. Current fiscal policymaking in Kenya, primarily focused on national government revenues, expenditures, and borrowing, presents challenges for achieving fiscal sustainability. While the public sector comprises Ministries, Departments, Agencies (MDAs)—known as national government—counties, semi-autonomous government agencies (SAGAs), public funds, and state corporations (SCs), Kenya, like most countries, assesses its fiscal policy based on the performance of the national/central government and its debt. This approach can fall victim to illusory fiscal practices, as the national government can lower debt and deficits by cutting spending for public infrastructure or increasing non-debt liabilities of the rest of public sector.

2. Kenya's current legal framework provides for a broader coverage of fiscal analysis. The Public Financial Management Act (PFMA) 2012, amended in 2023, mandates the National Treasury (NT) to be a custodian of government assets and manage the level and composition of public debt, guarantees, and other financial obligations for sustainable debt control. In response, the NT has been involved in diverse PFM reforms, resulting in improved fiscal reports, the production of consolidated financial statements for almost all public sector entities, the establishment of a fiscal risk management framework, and the ongoing implementation of a treasury single account and accrual-based International Public Sector Accounting Standard (IPSAS). Therefore, Kenya is well-positioned to reap the benefits of PFM achievements and adopt a more comprehensive approach to better manage public assets and liabilities and improve efficiency of government interventions in the economy.

3. Public sector balance sheets (PSBS) provide a framework for conducting a thorough analysis of fiscal policies and risks. By consolidating the complete spectrum of assets and liabilities held by the public sector, balance sheets offer a more comprehensive fiscal perspective compared to focusing solely on debt and deficits. Expanding the analysis to include the entire public sector forms the foundation for enhancing fiscal management, boosting revenues, mitigating risks, and improving the formulation of fiscal policies. Economies with robust public sector balance sheets experience shallower recessions and tend to recover faster after economic downturns. Empirical studies show that financial markets account for government assets and net (financial) worth when pricing sovereign bonds (Yousefi, 2019).[1]

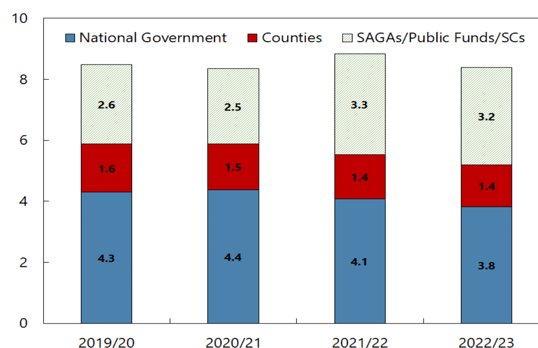
4. Kenya's fiscal policy analysis would improve by expanding the scope to encompass all assets and liabilities of the public sector. This extension not only enhances transparency but also provides valuable insights for policymakers and the public, fostering a more comprehensive understanding of public finances. When fiscal data is limited to a subset of the general government, it can be misleading. For example, Kenya's expenses on compensation of employees have declined for the national government (focus of fiscal policy), from 4.3 percent of GDP in FY2019/20 to 3.8 percent of GDP in FY2022/23. However, they have increased by 0.6 percent of GDP for SAGAs,

[1] Yousefi, R. (2019): Public Sector Balance Sheet Strength and the Macro Economy, *IMF Working Paper*, WP/19/170.

public funds, and SCs over the same period (Text Figure AIV.1). For the entire public sector, compensation of employees has remained at about 8.4 percent of GDP, and for the general government estimated at 7 percent of GDP in FY2022/23, constituting 49 percent of tax revenues.[2] Additionally, the PSBS will encompass assets and liabilities not included in current fiscal reports, such as natural resources, pension liabilities, Public-Private Partnership (PPP) contracts, and other claims and payables.

Text Figure AIV.1. Kenya: Public Sector Compensation of Employees, FY2019/20—2022/23

(Percent of GDP)



Source: National Treasury. Consolidated financial statements https://www.treasury.go.ke/accountant-generals-desk/

5. Internationally, it is observed that improved asset management can significantly increase both asset yields and government revenues. This principle is deemed applicable to Kenya, where there is potential for substantial revenue gains. According to IMF (2018), potential revenue increases from improved management of non-financial public corporations and government financial assets alone could reach up to 3 percent of GDP annually. [3]While Kenya has yet to establish a clear distinction between commercial and non-commercial entities, in line with the IMF's Government Finance Statistics Manual 2014 (GFSM2014), commercial corporations in Kenya assets of commercial corporations in Kenya are equivalent to about 35 percent of the GDP (Consolidated Financial Statements FY2022/23). Despite this, dividends from these entities averaged 0.3 percent of GDP from FY2015/16 to FY2022/23, with a minimal contribution through taxes at 0.13 percent of GDP in FY2022/23. This highlights a significant opportunity for additional revenue generation from commercial entities.

6. SAGAs and State Corporations remain a strain on the budget. In FY2022/23, 242 SAGAs/SCs incurred losses amounting to 0.7 percent of GDP, marking an increase from the previous fiscal year when 183 entities faced losses equivalent to 0.5 percent of GDP in FY2021/22 (Text Figure AIV.2).[4] While pension funds, belonging to contributors and not remitting dividends to the budget, and Central Bank of Kenya (CBK) profits have shown improvement, a substantial portion of the CBK profit is attributed to unrealized gains from exchange rate depreciations. As a result, the dividends remitted by CBK and profitable SCs, totaling 0.29 percent of GDP, fall short of covering the losses incurred by the remaining SAGAs/SCs. This implies that SAGAs/SCs either require support from the budget or will accumulate payables, reduce their equity, and increase non-equity liabilities.

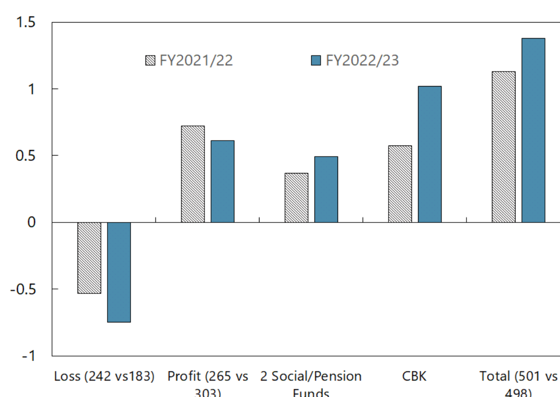
[2] This consists national government, counties, and extra-budgetary units. Data on extra-budgetary units are based on the consolidated financial statements of SCs, SAGAs, and Public Funds. Those entities that report in accordance with IPSAs are considered extra-budgetary units.

[3] IMF (2018). Managing Public Wealth, *Fiscal Monitor*, October 2018.

[4] As of June 30, 2023, there were 526 SAGAs/SCs, from 500 entities as of end-June 2022, of which 16 have not been included in the consolidated financial statements (11 in FY2021/22).

For instance, in FY2022/23, 18 SAGAs/SCs reported negative equity, totaling 1.5 percent of GDP. Moreover, given that most SAGAs are primarily financed from the budget, these losses remain as obligations, necessitating additional budget transfers in the future.

Text Figure AIV.2. Kenya: SAGAs/SCs/Public Funds—Profit and Loss, FY2021/22–2022/23
(Percent of GDP)



Source: National Treasury, Consolidated financial statements https://www.treasury.go.ke/accountant-generals-desk/

7. Compiling a PSBS is a complex and data-intensive process that requires advanced accounting systems. PSBSs are developed within the framework outlined in the GFSM 2014, which recommends the reporting of accrual information and balance sheets. In addition to the historic and current picture of the public assets and liabilities, referred to as the static PSBS, PSBSs can determine the long-term intertemporal net worth effect of current policies by combining the discounted future flows of revenues and expenditures with the static balance sheet. This is referred to as an intertemporal PSBS (Figure 3).[5] Kenya does not produce a PSBS, however, consolidated financial statements for different perimeters of public sector enable to estimate it.

8. In June 2023, Kenya' public sector had an estimated net worth of minus 30 percent of GDP (Text Table AIV.1). Public sector assets were estimated at 101 percent of GDP, while liabilities reached at 131 percent of GDP. The main components of the Kenya's public sector balance sheet are as follows:

- *Non-financial assets*, estimated at 87 percent of GDP, encompassing infrastructure, buildings, public land holdings, as well as the fixed assets and equipment held by SAGAs and state corporations.
- *Financial assets*, estimated at 14 percent of GDP, consisting of cash and deposits (3.1 percent of GDP), debt securities (1 percent of GDP), equity investment (2 percent of GDP) and receivables (7.9 percent of GDP).
- *Liabilities*, estimated at 131 percent of GDP, consisting of government debt securities and loans (70 percent of GDP), debt securities from SCs (6 percent of GDP) currency and deposits owed by the CBK and financial corporations (6 percent of GDP), actuarial pension obligations (33 percent of GDP), and pending bills and other payables, including PPP contracts, totaling 16 percent of GDP.

[5] The intertemporal PSBS adds the net present values of all future fiscal balances to the static PSBS. The computation requires many assumptions to construct the future fiscal path, discount factor, and age-related spending. Kenya's intertemporal balance sheet is not estimated in the paper.

9. The balance sheet encompasses approximately 44 percent of GDP, representing crossholdings of assets and liabilities across various public sector segments. This includes government equity claims on SAGAs/SCs (36 percent of GDP), government and SAGAs/SCs deposits at the CBK (4.8 percent of GDP), government securities held by SCs and the CBK (1.7 percent of GDP), and receivables/payables (1.4 percent of GDP). Although crossholdings themselves don't directly impact the PSBS net worth, they can act as a transmission channel for risks between sectors, potentially influencing the entire public sector.

Text Table AIV.1. Kenya: Public Sector Balance Sheet, FY2022/23

(Percent of GDP)

	National Government (a)	Counties (b)	SAGAS/ SCs (c)	Cross-Holdings (d)	Consolidated Public Sector (a+b+c+d)
Stocks					
Total assets	**75.6**	**2.2**	**66.6**	**-43.5**	**100.9**
Nonfinancial assets	38.2	1.8	47.0	0.0	87.1
Financial assets	37.4	0.3	19.6	-43.5	13.9
of which: Equity Investment	37.0	0.0	0.6	-35.6	2.0
Total Liabilities	**103.3**	**1.2**	**69.9**	**-43.5**	**131.0**
of which: Debt securities and Loans	70.1	0.0	7.6	-1.7	76.0
Pension Obligations	30.0	0.0	3.3	0.0	33.3
Equity Investment	0.0	0.0	35.6	-35.6	0.0
Net Financial Worth	**-65.9**	**-0.8**	**-50.3**	**0.0**	**-117.1**
Net Worth	**-27.7**	**1.0**	**-3.3**	**0.0**	**-30.0**
Flows					
Revenue	16.7	3.2	10.1	-6.0	24.0
Expenditure	22.6	3.1	8.8	-6.0	28.4
Net/Lending Borrowing (Profit/Loss)	-5.9	0.1	1.4	0.0	-4.4

Sources: National Treasury; and IMF, *GFS Database* and staff calculations.

10. Kenya's public sector is vulnerable to external shocks due to a limited stock of financial assets. Kenya's financial assets are much smaller than government debt levels and total liabilities. Consequently, this putts the government in a difficult position with insufficient liquid assets to meet its gross financing needs. Additionally, the substantial foreign exchange exposure—with foreign exchange-denominated assets at about 5 percent of GDP and liabilities at about 40 percent—poses a risk of adverse budget impact through currency depreciation. In many other countries, substantial non-financial and financial assets (managed by sovereign wealth funds) are largely attributed to natural resources, which were not considered in Kenya's balance sheet due to the relatively limited presence of natural resources and minimal activity in this sector. Kenya's public sector assets and liabilities are on par with its peers in the region, such as South Africa and Senegal, and its liabilities are comparable with many countries that have an estimated PSBS.[6]

11. The estimated PSBS highlights the potential value of a comprehensive approach to fiscal policy analysis in Kenya. Focusing on the national government's performance creates incentives to undermine the financial performance of the rest of public sector, posing a potential risk to fiscal sustainability. As of June 2023, the non-equity liabilities of SAGAs/SCs, including 13 percent of GDP as payables, amounted to about 35 percent of GDP. Progress in financial reporting, particularly the production of consolidated financial statements, provides the foundation for public sector analysis. Moreover, the PSBS estimates underscore the immediate need to reform SAGAs/SCs, separating entities focused on service delivery (extra-budgetary) from those operating commercially. This restructuring will facilitate not only the production of central government fiscal statistics but will provide a possibility to strengthen governance and monitoring of these entities. Adopting a balance

[6] Few countries publish their PSBS data, but IMF has estimated balance sheets for additional countries and has published estimated PSBS for 55 countries on the PSBS website: http://data.imf.org/psbs.

sheet approach enables the early identification of potential fiscal risks, as exemplified by PSBS 2022/23, which signals the of increasing financial assets and addressing non-debt liabilities. Finally, to support the achievement of the debt anchor, at 55 percent of GDP in present value, and prevent a buildup of non-debt liabilities, fiscal statistics should encompass at least the central government and report on public sector liabilities. Authorities are in the final stage of migrating to GFSM 2014 fiscal statistics, covering central government, and publication of consolidated financial statements provide consolidated liabilities of each perimeter of the public sector.

Annex V. Systemic Risks in the Kenyan Banking Sector

1. FX exposures and sovereign-bank nexus, and domestic interconnectedness are key sources of systemic risks. The Kenyan financial system is bank-dominated, with banks accounting for 72 percent of the financial sector assets. Owing to regulations on foreign exposures, insurance companies and pension funds have limited FX exposures, though their sovereign exposures are significant.[1] Due to the underdevelopment of domestic secondary markets, direct interconnectedness between banks and non-bank financial institutions (NBFIs) is also limited.

A. FX Exposures

2. The share of FX deposits, liabilities and loans in the banking system has been trending up (Figure AV.1.a). The share of FX liabilities in total for Kenya at 34.9 percent in 2023Q3, is higher than the median of 31.6 percent for emerging and developing economies for which data is available (Figure AV.1.b). FX deposits in the banking system have increased in the recent quarters, even after excluding depreciation effects (i.e., in nominal US$ terms). While a large share of the increase between March and September 2023 could be accounted for by escrow deposits under the G2G oil import scheme, expectations of continued depreciation of the shilling amid persistent FX shortages, and FX market dysfunction, as well as the narrowing interest differential between some types of Ksh. and US$ deposits likely have contributed to the increase in FX deposits (Figure AV.1.c). A non-trivial portion of the FX loans are in sectors such as personal loans, real estate, transport and communication, and building and construction, and it is unclear to what extent borrowers in these sectors have a natural hedge as these sectors are not main export sectors (Figure AV.1.d). Banks report that with the ongoing dollar shortage, FX borrowers who are unable to source U.S. dollars in the local market have been offering repayment in shilling, effectively defaulting on the loans, and contributing to the recent rise in nonperforming loans (NPLs).

3. Kenyan banks also have notable off-balance sheet FX exposures, both via FX swaps and issuance of letters of credit (LCs). Total FX net open position (NOP) of Kenyan banks widened to –2.3 percent of total regulatory capital in 2023Q3 from –1.3 percent in 2023Q2, whereas the on-balance sheet FX NOP narrowed to –3.5 percent (2023Q2: –6.8 percent), per IMF Financial Soundness Indicators data (Figure AV.1.e). Regulatory FX NOP computed using the short-hand method, also widened, from –2.1 percent of core capital in 2023Q2 to –3.1 percent in 2023Q3, against the limit of 10 percent. However, there is wide variation among banks, with 7.9 percent of banks close to or above the regulatory limit while another 13.2 percent of banks over 5 percent. Moreover, several banks, including some Tier-1 banks, had large on-balance sheet NOPs in 2023Q3 that were offset by large off-balance sheet NOPs, though these exposures have generally declined in the last year. Bank’s FX lending via swaps declined between June and October 2023, as the swaps to

[1] However, NBFIs are affected by exchange rate movements, particularly in the context of prolonged one-sided depreciation and FX market dysfunction. To the extent that the FX market dysfunction discourages foreign investment, it impacts asset values of investments (e.g.: in listed stocks) by NBFIs. For insurers, exchange rate depreciation increases insurance claims costs particularly for motor and medical insurance due to the reliance of these sectors on imports, impacting profitability.

the oil sector wound down, whereas their FX borrowing via swaps remained stable, with US$472 million of swaps (in the borrowing direction) outstanding as of October 19, 2023 (Figure AV.1.f). On the other hand, the issuance of letters of credit for the G2G oil import scheme led to significant increase in off-balance sheet borrowing and lending by the LC-issuing banks.

4. **FX swaps expose Kenyan banks to rollover risks.** Most FX borrowing via swaps by Kenyan banks is from non-residents (and non-East African Community residents), whereas most FX lending is to Kenyan residents, exposing banks to rollover risks from changes in foreign investor sentiment (Figure AV.2.a and Figure AV.2.b). On the maturity structure, most outstanding FX borrowing via swaps is of a duration longer than 1 year, while most lending is of a duration less than a year (Figure AV.2.c and Figure AV.2.d). However, anecdotal evidence suggests that most swaps to residents are rolled over on maturity. Further, the new swaps with non-residents (in the direction of FX borrowing by Kenyan banks) has tilted heavily towards short-term maturities since the August 2023 liberalization of minimum maturity of such swaps (Figure AV.2.e).

5. **CBK stress tests with FX depreciation scenario show 33 percent of Tier-1 banks falling short of capital adequacy requirements in a stress episode.** The CBK's FX depreciation stress tests indicates that, in a scenario with 17.5 percent nominal depreciation over 6 months, transmits to the banking system with NPLs projected to rise by 16.4 percent and capital deterioration due to increase in net open position. 18 percent of banks would need additional capital to meet the regulatory minimum, though the total capital requirements were small as a share of GDP (approximately 0.2 percent).

B. Sovereign Exposures

6. **Majority of outstanding Government of Kenya domestic debt is held by domestic financial institutions (Figure AV.3.a).** Banks' share of government securities (G-secs) outstanding has declined in the last two years, with their share in T-bills outstanding declining from 59 percent in June 2021 to 41 percent in September 2023, and in T-bonds from 48 to 45 percent over the same period. Pension funds and insurers have seen less of a shift over the same time period, with the share of pension funds in total outstanding G-secs increasing from 31 percent to 33 percent and of insurers remaining the same over the period June 2021 to September 2023.

7. **Broad majority of banks' holdings of G-secs are T-bonds, exposing them to valuation risks.** 89 percent of banks' holdings are of T-bonds rather than T-bills, consistent with the maturity structure of the G-secs outstanding. While the banking sector held 26.8 percent of assets in G-secs in June 2023, there was a wide variation within the industry, with 15.8 percent of banks holding over 40 percent of their assets in G-secs (Figure AV.3.b).

8. **CBK stress tests show 3 Tier-1 banks falling short of capital adequacy requirements in a scenario of sharp increase in interest rates.** The CBK recently published its stress tests using June 2023 balance sheet data, with a severe scenario of 300 basis points increase in central bank policy rate, and transmission via both asset valuation and credit channels. In this scenario, average T-bond yields would increase to 19.7 percent and NPLs to 17.4 percent of gross loans by December

2023 (from 16.2 percent and 15 percent in June 2023), and 10 banks, including 3 Tier-1 banks failed the stress tests. The additional capital requirements, however, were small as a share of GDP, at about 0.43 percent.

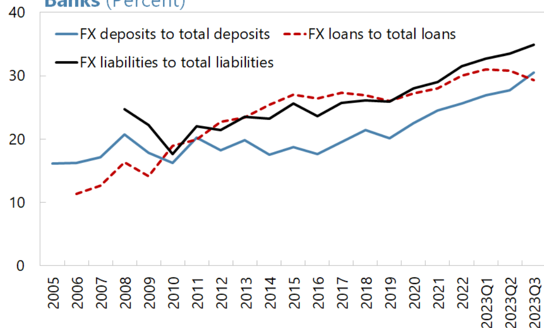
C. Domestic Interconnectedness

9. CBK stress tests showed that most banks are vulnerable to default by up to three top borrowers defaulting per bank, highlighting concentration risk to a few clients. Most major corporates are reportedly muti-banked. Nineteen banks failed a stress test with top three borrowers defaulting (using December 2022 data) and this scenario would require the highest capital injection, of all scenarios considered by the May 2023 stress tests, of Ksh.109.4 billion or about 0.8 percent of GDP.

Figure AV.1. Kenya: FX Exposures of Banks

Dollarization on banks' balance sheets has been increasing...

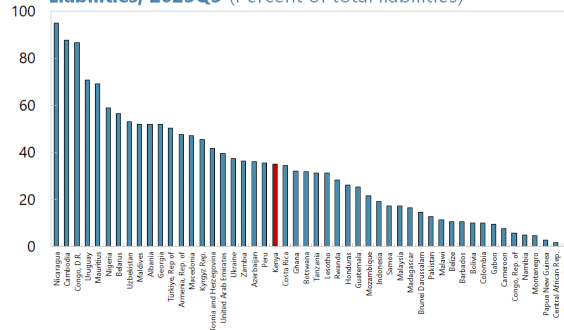
Figure AV.1.a. FX Deposits, Liabilities, and Loans of Banks (Percent)



Sources: Central Bank of Kenya; IMF, *Financial Soundness Indicators*

...and is now above the emerging and developing economies' median

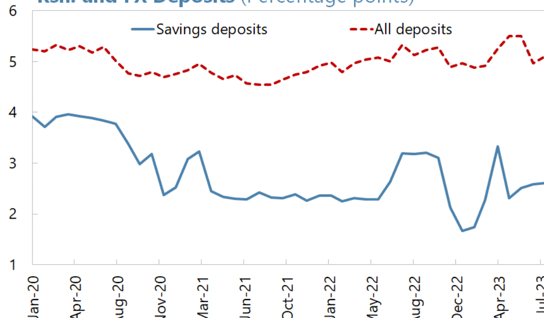
Figure AV.1.b. Selected Countries: FX-Denominated Liabilities, 2023Q3 (Percent of total liabilities)



Source: IMF, *Financial Soundness Indicators* database.

The interest differential between some types of shilling and FX deposits has been trending down...

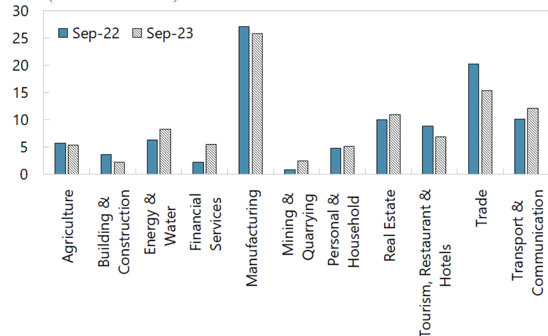
Figure AV.1.c. Differential Between Interest Rates on Ksh. and FX Deposits (Percentage points)



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

... and a non-trivial portion of FX lending is to sectors that are not key export sectors

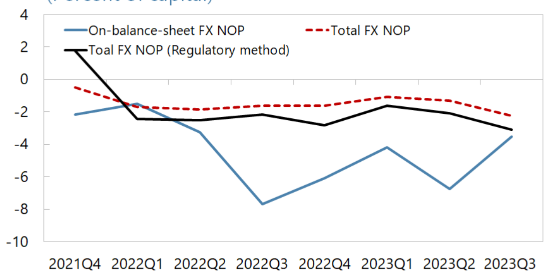
Figure AV.1.d. Share of FX Loans by Sector (Percent share)



Source: Central Bank of Kenya.

Total FX NOP widened even as on-balance sheet FX NOP shrank in 2023Q3

Figure AV.1.e. Kenyan Banks' FX NOPs (Percent of capital)

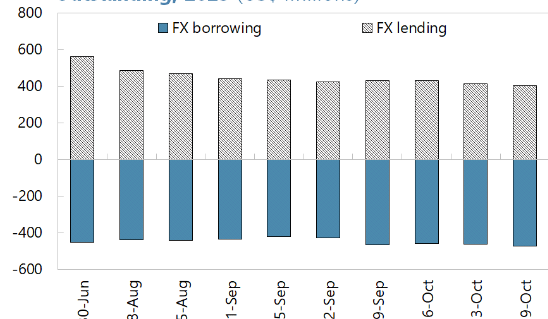


Sources: Central Bank of Kenya; and IMF, *Financial Soundness Indicators* database.

Note: FX NOP by regulatory method is expressed as percent of core capital, while the other two series as percent of total regulatory capital.

Banks' FX lending via swaps declined in 2023Q3 even as FX borrowing remained steady

Figure AV.1.f. Kenyan Banks' FX Swaps Outstanding, 2023 (US$ millions)

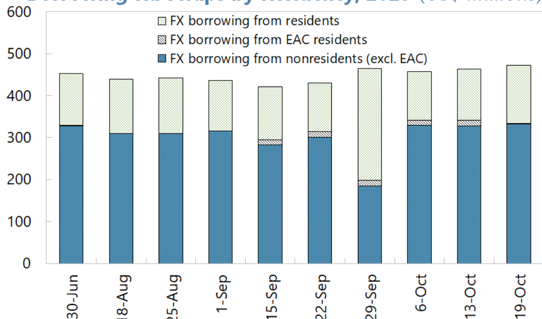


Sources: Central Bank of Kenya; and IMf staff calculations.

Figure AV.2. Kenyan Banks: FX Swaps

Most FX borrowing via swaps is with non-residents outside of EAC…

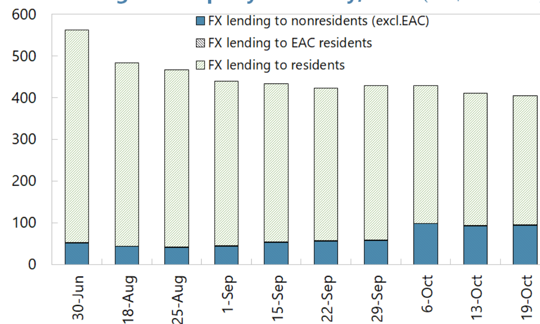
Figure AV.2.a. Kenyan Banks' Outstanding FX Borrowing via Swaps by Residency, 2023 (US$ millions)



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

… while most FX lending via swaps is to residents

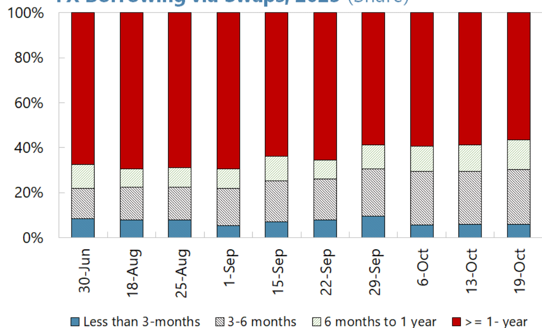
Figure AV.2.b. Kenyan Banks' Outstanding FX Lending via Swaps by Residency, 2023 (US$ millions)



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

Outstanding FX borrowing from non-residents is largely of terms longer than one-year…

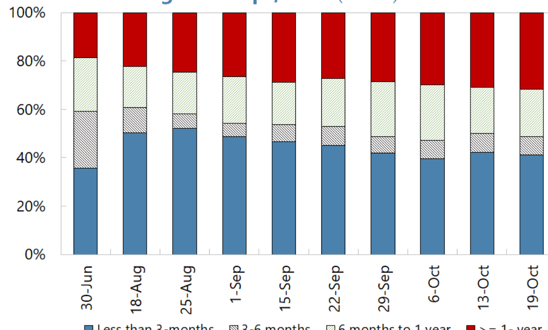
Figure AV.2.c. Maturity Structure of Outstanding FX Borrowing via Swaps, 2023 (Share)



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

…while FX lending to residents is shorter term (but usually rolled over)

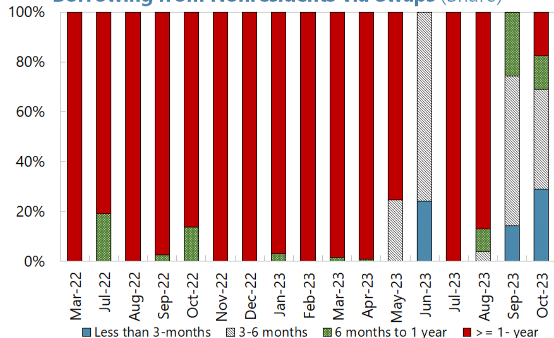
Figure AV.2.d. Maturity Structure of Outstanding FX Lending via Swaps, 2023 (Share)



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

New FX borrowing via swaps since September tilted heavily towards short-term borrowing

Figure AV.2.e. Maturity Structure of Flow of FX Borrowing from Nonresidents via Swaps (Share)



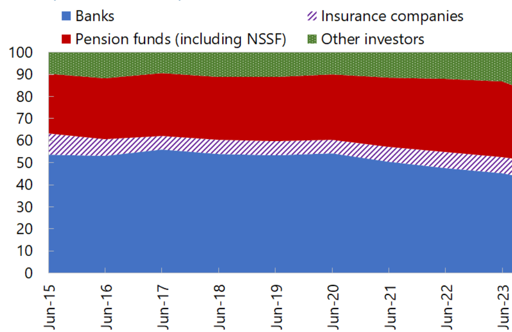
Sources: Central Bank of Kenya; and IMF staff calculations.

Figure AV.3. Kenya: Sovereign Linkages with Financial Sector

Banks's share of outstanding sovereign debt has declined, but that of pension funds has increased

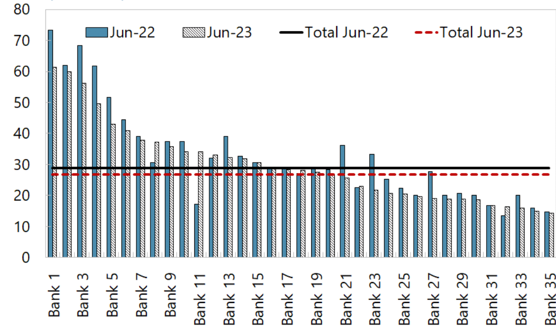
Share of G-Secs (local currency) in banks' assets has declined but remains substantial, and varies across banks

Figure AV.3.a. Holders of Outstanding G-Secs
(Percent share)



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

Figure AV.3.b. Share of G-Secs in Kenyan Banks' Assets
(Percent)

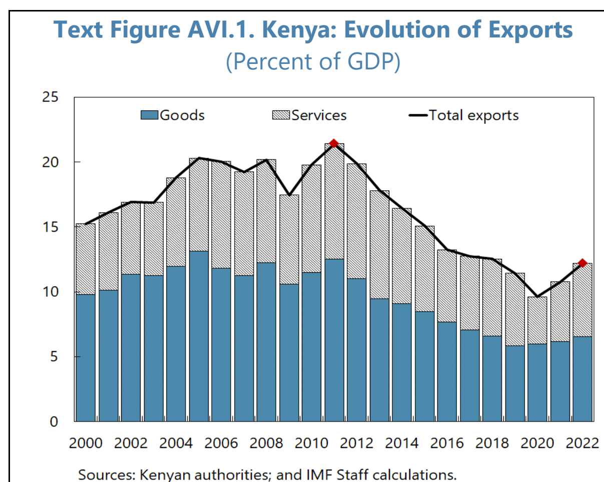


Sources: Central Bank of Kenya; and IMF staff calculations.

Annex VI. Export Competitiveness in Kenya

1. Strong export growth remains critical for maintaining Kenya's external debt sustainability, but its export performance over the past decade was relatively weak. Kenya's exports grew on average at 12.9 percent annually between 2001–10, but growth decelerated to annual average of 2.9 percent in 2011–19. As a result, the exports-to-GDP ratio has nearly halved from the peak of 21.4 percent in 2011 to 11.4 percent in 2019 (Text Figure AVI.1). Exports rebounded from the lows of 2020 over the next 2 years but contracted in 2023.

Text Figure AVI.1. Kenya: Evolution of Exports
(Percent of GDP)



Sources: Kenyan authorities; and IMF Staff calculations.

2. This analysis applies a new Export Competitiveness Toolkit to evaluate key structural determinants of relatively low per capita export competitiveness and complexity in Kenya.[1,2,3] Kenya's exports are benchmarked against those of the regional economies and aspirational export countries to compare key non-price determinants of export competitiveness and complexity. The toolkit examines five key determinants of export competitiveness and complexity: proximity to markets, education, governance, infrastructure, and trade openness.

3. The analysis shows that Kenya's per capita exports and export complexity are relatively low (Text Figure AVI.2). In 2019 U.S. dollar terms, Kenya's per capita nonhydrocarbon/nonmineral (NHM) exports were estimated at US$93, comparing relatively well to Rwanda and Tanzania but significantly lagging Ghana, Mauritius, South Africa, and East Asia Emerging Markets (EAEM). Similarly, while per capita complex exports (US$32) compare favorably with regional peers, they are low and lag those in Mauritius, South Africa, and EAEM by a large margin. Despite recent growth, per capita services exports (US$79) remain below those in Ghana and other strong performers.

4. Per capita exports and complex exports have grown modestly since 1980s, while service exports performance was stronger since the 2000s (Text Figure AVI.3). Kenya's per

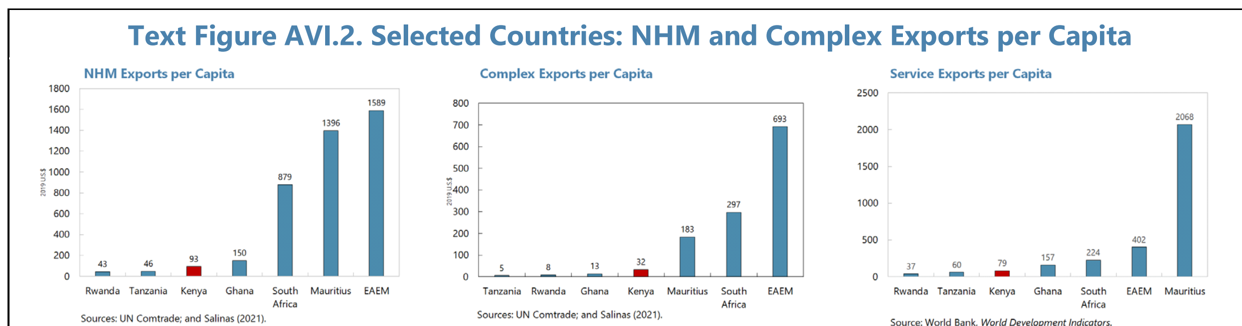
[1] The toolkit is developed by IMF Intradepartmental Diversification Working Group. The toolkit is based on the analytical approach presented in Salinas, G. (2021). *Proximity and Horizontal Policies: The Backbone of Export Diversification*, IMF Working Paper, No. WP/2021/064. It tracks several categories of non-hydrocarbon/mineral exports and frames the analysis within a gravity equation setting. Complex products are defined as those in the upper half of complexity according to Hausmann, R., and others (2014). *The Atlas of Economic Complexity: Mapping Paths to Prosperity*, The MIT Press.

[2] Complex exports: Include goods that in Hausmann and others (2013) have a Product Complexity Index (PCI) above zero (approximately the top half of the PCI ranking).

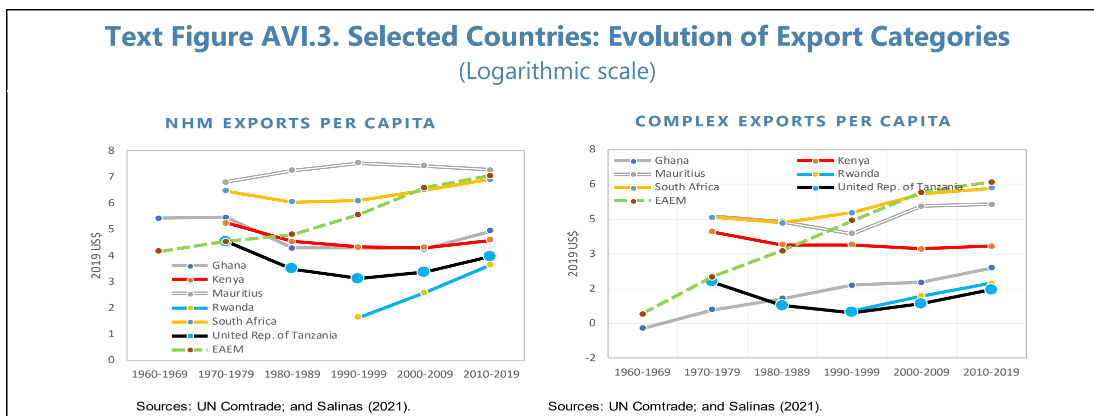
[3] The findings of the analysis broadly in line with the 2021 IMF Selected Issues Paper: Evidence of Non-Price Competitiveness of the Kenya Economy.

capita exports (expressed in 2019 US$ terms) remained flat over the last few decades, a trend similar to in some other regional comparators. Rwanda, South Africa, and EAEM registered noticeable growth in per capita exports during the same period. While per capita complex exports in Kenya remained higher than in regional peers, progress has been limited and the gap has narrowed as Ghana, Rwanda, and Tanzania advanced faster. Per capita complex exports in Kenya and EAEM were at similar levels in 1980s but since diverged since on the back of strong export-supporting policies in the EAEM. Per capita service exports growth has been stronger over the same period and remains at relatively higher levels in Kenya than those in regional peers.

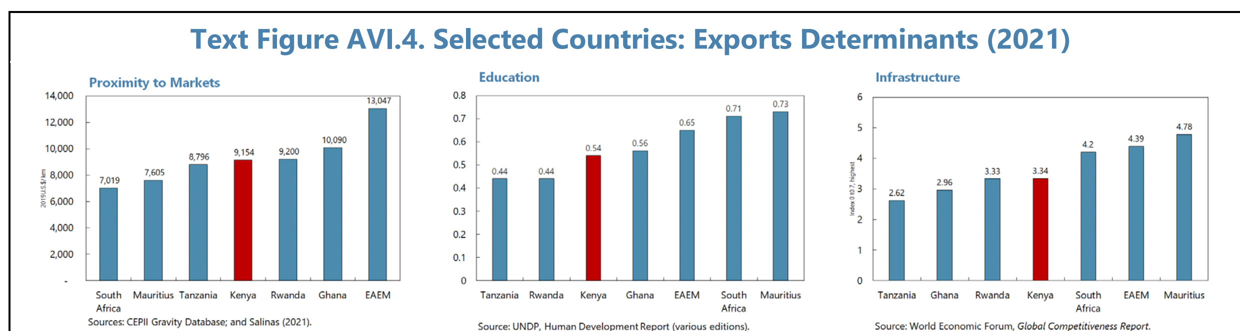
Text Figure AVI.2. Selected Countries: NHM and Complex Exports per Capita



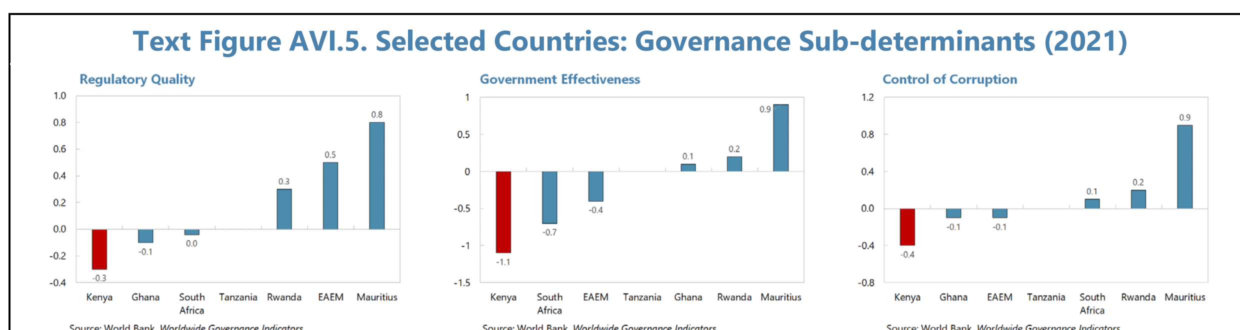
Text Figure AVI.3. Selected Countries: Evolution of Export Categories
(Logarithmic scale)



5. Kenya needs to improve determinants of export competitiveness (Text Figures AVI.4 and AVI.5). On three non-price export determinants—education, infrastructure, and proximity to markets—Kenya ranks favorably to the regional competitors, but lags EAEM exporters and Mauritius. Kenya made significant progress over the last few decades on education and infrastructure and is likely to reap the benefits in the coming years. However, on two other determinants—governance and trade openness—Kenya does not rank favorably in the study group. Average import tariffs in Kenya have come down significantly since 1980s, but together with those in Tanzania, they remain the highest among countries under consideration. Kenya's trade openness relative to its level of development has declined since 2005 (Jack and Maina, 2021). Improvement in the governance determinant has been modest since 1990s, and Kenya's performance across several governance sub determinants is significantly weaker than comparators. Particularly, regulatory quality, government effectiveness, and control of corruption are where the most progress is needed to boost export competitiveness.

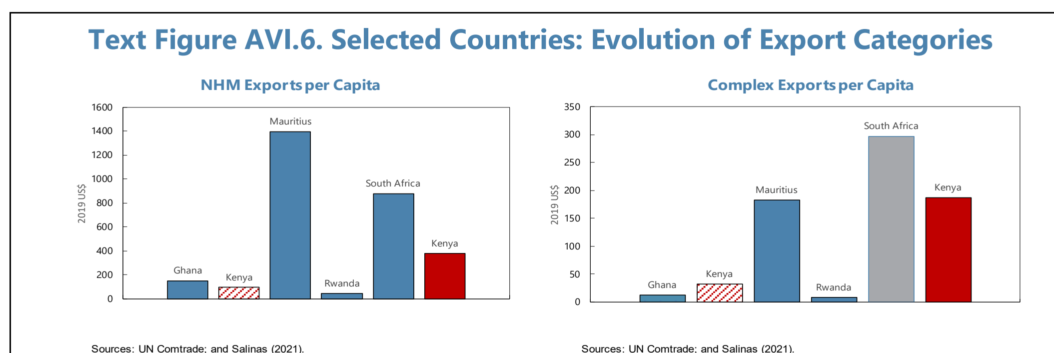


Text Figure AVI.4. Selected Countries: Exports Determinants (2021)



Text Figure AVI.5. Selected Countries: Governance Sub-determinants (2021)

6. Model simulations indicate that maintaining strong reform effort in Kenya and addressing the existing gaps would significantly increase per capita exports and complexity of exports. Continued progress in education and infrastructure and improving the governance and trade openness to the levels observed in EAEM countries would allow tripling per capita exports (US$93 to US$270) and quadrupling per capita complex exports (from US$32 to US$127) from current low levels. Improvements in internet and ICT infrastructure, especially in fixed broadband and fiber internet that lag strong export performers (EAEM and Mauritius) significantly, could help harness the recent growth in digital and technology service exports and compliment hard earned progress made in education over the past few decades. Removing immediate impediments to exports, including FX market distortions and delays in VAT refunds, addressing structural issues, including through the upcoming World Bank DPO, and securing progress in ongoing trade negotiations with large trading partners to unlock market access and attract FDI investments would allow Kenya to reverse the trend from the previous decade and boost its export competitiveness.

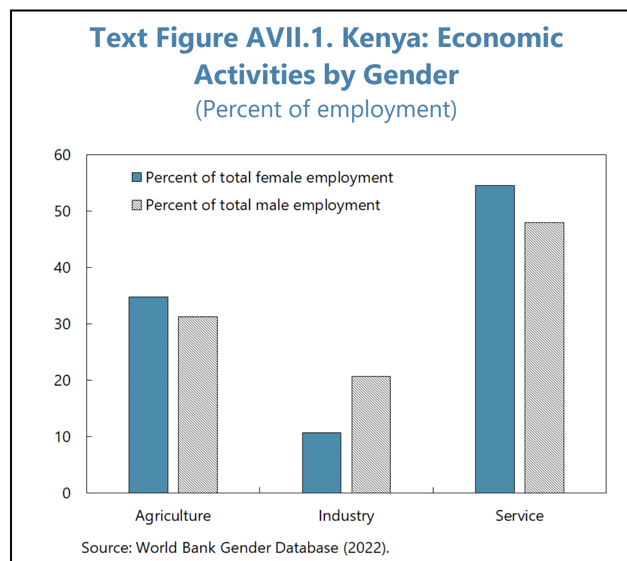


Text Figure AVI.6. Selected Countries: Evolution of Export Categories

Annex VII. Gender Equity and Climate Change in Kenya

1. The distribution of labor in Kenya makes women particularly vulnerable to climate change. Approximately 35 percent of total female employment is in agriculture (see Text Figure AVI.1). In addition, Kenyan women spend approximately 5 hours per day on unpaid work, which is about five times more than men.[1] Women in rural areas spend 1–5 hours per day looking for firewood and, in the northern dry regions, between 3–5 hours per day collecting water in periods of drought.[2,3] Because firewood and water are women's responsibilities, decreased availability of natural resources due to climate change will seriously affect them. Indirect effects on women and girls include climate change-induced conflicts and disease outbreaks (particularly malaria), which cause an extra household care burden.

Text Figure AVII.1. Kenya: Economic Activities by Gender
(Percent of employment)



Source: World Bank Gender Database (2022).

2. Kenyan women also have relatively diminished adaptive capacity to manage climate-related pressures. Around a third of households are headed by women, with female-led households on average being poorer (38.8 percent) compared to those headed by men (32.7 percent).[4,5] Women's adaptive capacity to climate change is limited by their restricted access to capital and ownership over resources (women have far lower levels of land ownership than men). The high vulnerability of agriculture to climate change means climate-change related shocks can have devastating impact on women's work and food security.[6,7] Women also lack the resources needed to weather harsh climatic impacts (e.g., better houses, drought resistant crops).

3. Kenya's green transition could be of great benefit to women. The legal and planning framework is in place: the National Climate Change Action Plan (NCCAP) 2023–27 and the recent Climate Change Act (2023) both seek to mainstream gender equality in all aspects of climate change responses. The NCCAP notes that women could benefit more than men from the promotion of clean

[1] Kenya National Bureau of Statistics (2023): 2021 Kenya Time Use Report.

[2] The World Bank (2022): Horn of Africa—Ground Water for Resilience Project.

[3] Ojuok, I. and Ndayizigiye, T. (2021): Women Participation in Farmer Managed Natural Regeneration for Climate Resilience: Laisamis, Marsabit County, Kenya.

[4] Kenya National Bureau of Statistics (2023): 2022 Kenya Demographic and Health Survey (KDHS).

[5] Kenya National Bureau of Statistics (2023): The Kenya Poverty Report –2021.

[6] Dankelman, I. (2010): Gender and Climate Change: An Introduction, Routledge.

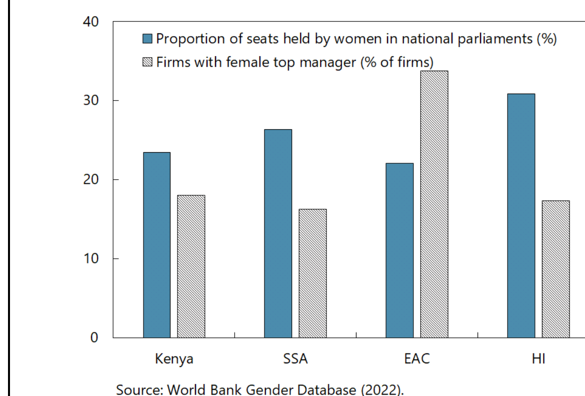
[7] Food and Agriculture Organization (FAO, 2011): The State of Food and Agriculture: Closing the Gender Gap for Development (Rome: FAO, 2011).

cooking solutions. More than 70 percent of Kenyan households still rely on biomass fuels for cooking, with only 3 percent owning an electric cooking appliance.[8,9] As a result, women in Kenya are often at higher risk of inhaling smoke and developing respiratory illnesses. Transition to clean cooking solutions would empower women by saving time and reducing health risks. Similarly, the NCCAP notes the importance of clean transportation, which could facilitate women's paid employment and development opportunities.

4. Recent flagship projects will empower women at the community level. Lack of participation in decision making processes has a large negative impact on women's adaptive capacity to climate variability.[10] The Financing Locally Led Climate Action (FLLoCA) Program places communities in control of climate adaptation choices, marking a departure from traditional top-down reforms (see Box 2 above). The program involves a large network of civil society organizations, many of which aim specifically at uplifting women.

Text Figure AVII.2. Kenya: Female Representation in Politics and Corporate Management

(Percent)



Source: World Bank Gender Database (2022).

5. Technology and digital access to information can also play an important role in improving women's adaptability to climate change. Initiatives such as AICCRA Kenya on climate smart agriculture aims at increasing the access to and use of resources by women and youth, while improving quality of climate information services.[11] The program deploys crop forecasting systems and market functionality tools for farmers via friendly digital tools. Up to 73,000 farmers have access to Intelligent Agricultural Systems Advisory Tool (iSAT), generating specific ward and crop advisories riding on existing platforms from other agencies.

6. Expansion of the social grants system could also play an important role in improving climate change adaptability. Using satellite data, the social protection system now includes rapid scalability of the Hunger Safety Net Program (HSNP) in eight counties to respond to climate shocks such as droughts. But more can be done to increase social protection coverage, including implementation of the Enhanced Social Registry to cover a larger proportion of households. The World Bank will be working with the Kenyan authorities to consider options for 'revenue recycling' – using the proceeds from climate-related taxes to enhance the coverage of the social grants system.

[8] Kenya Institute for Public Policy Research and Analysis (2022): Promoting Clean Cooking in Kenya.

[9] FAO (2019): Kenya Cooking Sector Study—Assessment of the Supply and Demand of Cooking Solutions at the Household Level.

[10] The World Bank (2021): Financing Locally-led Climate Action Program: Technical Assessment.

[11] Accelerating Impacts of CGIAR Climate Research for Africa (AICCRA), https://aiccra.cgiar.org/

7. Ultimately, promotion of gender-balanced climate policies would require increasing women's ownership and decision-making over assets. More broadly, policies focused on diversifying female employment opportunities, and facilitating female labor force participation could have a significant effect on gender equality. The government's *Women Enterprise Fund* for example, provides accessible and affordable credit to start or expand businesses. In addition, the Kenyan authorities have moved to increase representation of women in decision-making roles, including political leadership and the legal system.[12,13] Nevertheless, a combination of affordable childcare, improved vocational training, and increased access to adaptative social protection programs will also play an important role in improving individual resilience against climate shocks.

[12] https://wef.go.ke/

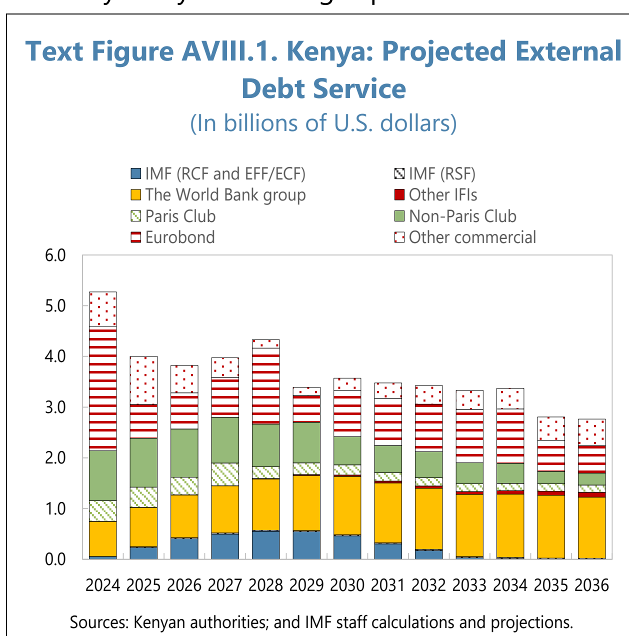
[13] Kenya National Bureau of Statistics (2023): Kenya Economic Survey 2023.

Annex VIII. Kenya: Analysis of GRA Exceptional Access Criterion 2

Background. *When a member's sovereign debt is assessed to be sustainable but not with high probability, as is currently the case for Kenya, the Fund can approve financing with exceptional access "so long as the member also receives financing from sources other than the Fund during the program on a scale and terms such that the policies implemented with program support and associated financing…. improve debt sustainability and sufficiently enhance the safeguards for Fund resources."*[1] *Fund policy offers "a range of options that could meet" this requirement. Under these policies, there "would be no presumption that any particular option would apply. Rather, the choice would depend on the circumstances of the particular case and would need to be justified accordingly."*

1. Kenya's case. Kenya's debt is sustainable but not with a high probability.[2] In the context of countries using the joint IMF-World Bank Low-Income Country Debt Sustainability Framework (LIC-DSF), debt sustainability with high probability is generally considered to be met when overall risk of public debt distress is at a low or moderate rating. In the case of Kenya, although the totality of conditions is such that debt is assessed to be sustainable, the risk of debt distress is high. Thus, Kenya's debt is sustainable but not with a high probability. Kenya's sovereign spreads remain elevated relative to levels seen pre-Ukraine war and tightening of monetary policy globally, but broadly tracking the median spreads for the Sub-Saharan African countries. The above-mentioned global developments have hindered its access to international bond markets since 2022Q2.[3] As a result, in FY2022/23 Kenya tapped into commercial syndicated loans, totaling about US$800 million. They are expected to secure an additional US$500 million in syndicated loans in FY2023/24. Under the baseline, Kenya's projected external public debt service is substantial (Text Figure AVII.1). The June 2024 US$2 billion Eurobond maturity is the primary source of external debt servicing pressure in 2024 amid continued challenges in accessing the international bond market. Kenya is

Text Figure AVIII.1. Kenya: Projected External Debt Service
(In billions of U.S. dollars)



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

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[1] Quotes taken from The Acting Chair's Summing Up—The Fund's Lending Framework and Sovereign Debt—Further Considerations.

[2] The LIC DSF framework produces mechanical risk signals. The assessment on sustainability is reached after considering totality of conditions, mechanical signals from the DSA, and staff's judgment.

[3] During 2018–21, Kenya issued five Eurobonds worth US$5.1 billion with maturities ranging between 8 and 20 years. Kenya last issued a 13-year US$1 billion Eurobond in June 2021. Kenya's Eurobond yield curve is negatively sloped since mid-2022. Its sovereign spreads (using weighted average of bonds with remaining maturity 1–15 years) stood at 645 basis points as of December 11, 2023, compared to an average of 486 basis points in February 2022 and a peak of 1,497 basis points in July 2022.

expected to regain access to the international bond market by the end of program, if not earlier given the ongoing efforts, supported by stronger policy measures and a normalization of global conditions by 2025 as projected under the Fund's global view. This would allow private sector creditor exposure to remain high enough at the end of the program and during the initial five years of servicing obligations to the Fund to provide safeguards for the Fund "*in the form of the option to implement more definitive debt restructuring later if needed, such as, in the event downside risks materialized*".[4]

Staff carried out extensive analysis to investigate whether, under a severe shock scenario, sufficient restructurable private sector claims would remain at the end of the program to provide adequate safeguards to Fund resources.[5]

2. Analysis. As with the recent GRA EA cases where debt was sustainable but not with high probability, two tests were conducted under a severe shock scenario that materializes at the end of the current program (i.e., 2026) and impacts the following five years. Obligations to the Fund peak in 2029–31.

- *Debt sustainability test.* An analysis was conducted to assess whether existing private claims at the end of the EFF/ECF program are sufficiently large so that their potential restructuring would help restore debt sustainability in a severe shock scenario, thereby sufficiently enhancing safeguards to Fund resources. The results show that Kenya could maintain debt sustainability in the face of such a shock through a debt operation on external commercial debt through a debt reduction or maturity lengthening beyond 2031. Under such a scenario, external debt sustainability would improve to a moderate risk rating (i.e., sustainable with high probability). Overall public debt would also remain sustainable but at high risk of debt distress, reaching below its threshold before the end of the DSA projection horizon. In this scenario, gross financing needs to GDP ratio as well as total debt service to revenue ratio during peak Fund repayment period (2029–31) would be significantly lower than those under current program period, providing additional safeguards to the Fund.
- *FX liquidity test.* This test assesses whether Kenya can accommodate an adverse shock and still be able to repay the Fund and maintain adequate international reserves, aided by a debt restructuring. The test assumes that the debt restructuring and the shock itself at the end of the EFF/ECF program would lead to a loss of market access from 2026 through 2031 and a temporary, but significant, drop in private capital inflows. The test checks whether the central bank would be able to maintain adequate level of reserves, above 3 months of imports cover, and whether the government would be able to rely on domestic borrowing to meet resulting fiscal financing needs without domestic debt becoming unrealistically high, i.e., exceeding past historical peaks in percent of GDP. The results show that a debt operation as described above, together with a significant but feasible external adjustment,

[4] Under the baseline, in 2025, the share of debt to external commercial creditors to total public external debt is at 16.4 percent, and debt service to these creditors average 33 percent and 40 percent of public external debt service during 2026–30 and 2031–36, respectively.

[5] See ¶73 in IMF Policy Paper No. 2021/003: "the signal "sustainable with high probability" is associated with a probability of an unsustainable event of less than 20 percent."

would allow Kenya to keep reserves at adequate levels, allowing access to sufficient FX to repay the Fund. In addition, after decreasing during the program period, the stock of domestic debt would increase steeply, but would remain below 2022 levels. However, the domestic financial sector is deep enough to absorb the government's additional domestic financing needs during the post-shock period, helped in part by the space created under the program baseline ahead of the shock.[6]

[6] Kenya's domestic financial system is one of the larger ones in Sub-Saharan Africa with combined assets of commercial banks, insurance, and pension funds standing at 68 percent of GDP. These institutions held about 97 percent of government's domestic debt in 2022. Non-resident holdings of Kenya's domestic debt is small and have declined in recent years. In the analysis, it is not assumed to change by the time of the shock.

Annex IX. Capacity Development Strategy

1. Capacity Development (CD) aligned with the Fund-supported program has focused on key areas over the past two years, including tax policy, revenue administration, Public Financial Management (PFM), financial sector oversight, statistics, and AML/CFT. Significant efforts have been made in streamlining tax expenditures, enhancing risk-based compliance, and improving budget frameworks and fiscal risk management. There's also been a focus on modernizing monetary policy and strengthening supervision in Kenya’s financial systems.

2. The impact of past CD has been positive, notably in reducing tax exemptions and broadening the tax base, contributing to an increase in tax/GDP. PFM systems have seen improvements, such as the creation of a budget preparation manual and better management of liquidity and expenditures. Strategies for State-Owned Enterprise (SOE) reform and a Medium-Term Revenue Strategy (MTRS) has been developed. Overall, the effectiveness of past technical assistance (TA) has been highly rated in most areas.

3. The forthcoming CD agenda will align with the goals of the authorities' economic program. It aims to enhance economic management through various initiatives, including revenue mobilization, improved PFM, financial stability, accurate statistics, and the promotion of the domestic bond market's development and functionality. Additionally, it will focus on the implementation of the SOE reform strategy and reinforce good governance. Within these domains, immediate priorities will be addressing challenges stemming from recent economic shocks. A central effort will be to assist in the execution of MTRS.

Table AIX.1. Kenya: Key Overall Capacity Development Priorities Going Forward

Priorities	Objectives
Public Financial Management	Support the authorities in developing a comprehensive, credible, and policy-driven approach to budget preparation, along with enhanced Public Investment Management (PIM). Further efforts will focus on tightening commitment controls, improving both the coverage and quality of fiscal reporting, and enhancing asset and liability management. Additionally, there will be a strengthened focus on identifying, monitoring, and managing fiscal risks. The implementation of the SOE reform strategy will also be a key component of this support.
External Sector Statistics	Enhance the promptness in releasing annual Balance of Payments (BoP) statistics in the International Financial Statistics (IFS) and work towards regularly submitting quarterly data. Better the data quality on external private debt and publishing official International Investment Position (IIP) statistics annually. Additionally, aim to make headway in generating quarterly data.

Table AIX.1. Kenya: Key Overall Capacity Development Priorities Going Forward (concluded)

Priorities	Objectives
Tax Policy and Revenue Administration	Strengthening management and governance in revenue administration, core tax functions, and customs operations. Supporting the design and implementation of Medium-Term Revenue Strategy (MTRS) measures, emphasizing taxpayer compliance, compliance risk management through data matching, and the operationalization of ICT systems. Developing capacities in digital services tax practices, and assessing legislative frameworks, processes, and procedures. Developing a framework for matching exports and imports data, monitoring oil exports in customs, and improving post-clearance audit and risk management. Continuing to reduce tax expenditures and broaden the tax base as per Fund technical assistance recommendations, including modernizing property tax, to counter the declining trend in tax revenues. Reviewing progress in policy refinement, implementation, and assessing revenue outcomes. Strengthening the Tax Policy Unit in the National Treasury.
Real Sector Statistics	Support Kenya Bureau of Statistics with the compilation of quarterly GDP by expenditure at current and constant prices, including development of import and export price indices.
Monetary and Macroprudential Policy	Accelerate the modernization of the monetary policy framework and operations and integrate FPAS into monetary policy decision making. Develop and strengthen macroprudential policy tools (heatmaps, network analysis, financial soundness indicators, financial stability analysis tools).
Macro-Fiscal Policy	Assist authorities in implementing the reform measures outlined in the RSF, including on carbon pricing, climate budget tagging, and climate risk analysis.
Financial Supervision and Regulation	Enhance risk-based supervision and Basel II/III implementation. Strengthen supervisory processes in nonbanks. Assess and mitigate risks in the financial sector.
Debt Management	Assist in the development of an efficient and liquid domestic bond market.

Appendix I. Letter of Intent

Nairobi, Kenya, December 21, 2023

Ms. Kristalina Georgieva

Managing Director

International Monetary Fund

700 19th St, NW

Washington, DC 20431

Dear Ms. Georgieva:

Kenya is currently navigating a complex array of challenging circumstances that span the global, regional, environmental, and national spectrum. The volatility of fuel prices, negative spillovers from regional instability, the war in Ukraine, and tighter financial conditions, volatility in commodity prices, and a difficult external environment for frontier markets are posing challenges for the Kenya economy in managing its balance of payments and fiscal financing requirements as it recovers from a prolonged, multi-season drought but now faces El Niño flooding. Despite this backdrop, the Kenyan economy has remained resilient with real GDP growing by 5.4 percent y/y in the first half of 2023, driven mainly by a strong rebound in the agricultural sector, which benefited from the end of drought.

Despite the difficult environment, Kenya's program continues to perform toward its objectives. The quantitative performance criteria (QPCs) for end-June 2023 on the primary fiscal balance, net international reserves, no new domestic guarantees, and present value of contracting or guaranteeing of new external debt were achieved, as was the indicative targets (IT) for priority social spending and exchequer requests outstanding for 90 days or more. However, tax revenues were below the end-June 2023 QPC floor and we had proposed corrective measures at the time of fifth EFF/ECF reviews. On that basis, as per IMF program policies, we had sought at the previous review, and the IMF Executive Board approved, a waiver of nonobservance under the EFF arrangement of the end-June 2023 tax target. At present, we are requesting a waiver of nonobservance for the same end-June 2023 tax target but under the ECF arrangement on the basis of aforementioned corrective actions. The end-June 2023 monetary policy consultation clause (MPCC) was triggered as inflation was above the target band and the related consultation with the IMF Executive Board was completed during the fifth EFF/ECF reviews in July 2023.

We regret to inform missing of the continuous performance criterion on no new external arrears by a small margin due to delays in processing a payment voucher to settle debt payment. We have since then settled these amounts. Additionally, we can assure you and the IMF Executive Board that necessary corrective actions have been taken to avoid a recurrence of similar misses in future. Such corrective actions include end of day reconciliation of payment vouchers against actual payments

and strengthening compliance on debt reporting by state-owned enterprises. Based on these actions, we request a waiver of nonobservance of this continuous performance criterion.

The structural benchmarks (SBs) set for June to October 2023 were not met within the designated timelines but have since been implemented with delays except for one SB for which we are requesting to be reset to end-February 2024. The end-June benchmark, involving the submission of AML/CFT amendment proposals to the National Assembly, was carried out in early July. The end-August benchmark, which required a review and publication of a taskforce's decision on fuel pricing to remain consistent with the approved budget, was completed in December 2023. The two benchmarks due at the end of September were also delayed; a Pending Bills Verification Committee was established in late September 2023 and timeline for the strategy on outstanding bills, based on the initial findings of the Committee, is now being proposed to be reset to end-February 2024 to allow sufficient time. Additionally, the special audit regarding supplementary budgeting, under Article 223 of the Constitution, was concluded at end-November due to its expanded scope and subsequently the report was published on December 18.

Regarding the end-October benchmarks, the draft Medium-Term Revenue Strategy (MTRS) along with an implementation plan was approved by the Cabinet in November 2023. The Ownership Policy for State Corporations (SCs) was approved by the Cabinet in early November and published subsequently. The Supplementary FY2023/24 Budget was submitted to Parliament in late October but submission of new tax measures to ensure compliance with the FY2023/24 targets was completed in December 2023.

Under the RSF arrangement, the reform measure for the early warning system for the first RSF review, was implemented in November. Thus, we request the first disbursement under the RSF arrangement. Looking forward, we are making progress on other RSF reform measures. However, given complexity of designing carbon taxes, including ensuring appropriate response to mitigate the impact on the vulnerable, we anticipate that implementation of the reform measure related to carbon pricing (reform measure 3) could take longer than previously envisaged but we are not requesting a rephasing of the related financing.

The government remains fully committed to the policies and reforms underpinning the objectives of the IMF-supported programs under the EFF/ECF and RSF arrangements. The administration intends to continue bolstering economic resilience by pursuing prudent policies geared at ensuring macroeconomic stability, reducing debt vulnerabilities, and supporting sustainable and inclusive development. To address the challenges facing the Kenyan Economy in this uncertain and shock-prone environment, we continue to implement decisive measures to safeguard macroeconomic stability as laid out in the attached Memorandum of Economic and Financial Policies (MEFP).

Given the balance of payments pressures resulting from the challenging external environment, we request an augmentation of access amounting to 130.3 percent of quota (SDR707.27 million) to be used as budget support via the central bank in FY2023/24, as well as modifications of program conditionalities. We request the augmentation of access to be split between GRA resources

(121.8 percent of quota; SDR661.13 million) and PRGT resources (8.5 percent of quota; SDR46.14 million). Under the EFF arrangement, we would like to request waiver of applicability for the end-December 2023 targets except for the one on tax revenues, for which we are requesting a waiver of nonobservance based on the corrective actions taken. We also request modification of the end-June 2024 QPCs on the primary fiscal balance and net international reserves. In line with the Fund's safeguards policy for budget support triggering exceptional access, we will initiate a fiscal safeguards assessment by the time of the 7th EFF/ECF reviews. Since EFF/ECF augmentation will be used for budgetary financing, the CBK and the National Treasury (NT) will sign a memorandum of understanding that clarifies the responsibilities for timely servicing of the obligations to the Fund related to this additional Fund financing.

We consider that our policies described in the attached MEFP are adequate to achieve the program objectives under the ECF/EFF and the RSF arrangements. We remain committed to a multi-year fiscal consolidation, supported by domestic revenue mobilization and expenditure rationalization, to put the ratio of overall public debt to GDP on a downward trajectory and achieve our debt anchor (present value of overall public debt to GDP ratio of 55 percent) by 2029. Our monetary policy actions will remain focused on maintaining price stability by resisting second-round effects and keeping inflationary expectations well anchored. Simultaneously, our actions aim to uphold external sustainability, acting as a buffer against recurring external shocks, safeguard reserves, and promptly promote the efficient operation of the foreign exchange market. We are also committed to advancing the reforms under the RSF arrangement to build a climate resilient economy. We will ensure that these policies are mutually reinforcing in support of maintaining macroeconomic stability and resilience, ensuring fiscal and debt sustainability, and enhancing buffers against shocks.

We stand ready to take additional measures to meet the objectives of the program, and in accordance with the Fund's policies, we will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached MEFP. We will provide Fund staff timely accurate data that are needed for program monitoring and the semi-annual program reviews, as agreed, under the attached Technical Memorandum of Understanding, or at the IMF's request.

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

Sincerely yours,

/s/	/s/
Prof. Njuguna Ndung'u	**Dr. Kamau Thugge**
Cabinet Secretary	Governor
National Treasury & Economic Planning	Central Bank of Kenya

Attachments (2):

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

Attachment I. Memorandum of Economic and Financial Policies

Nairobi, Kenya, December 21, 2023

I. BACKGROUND

1. **The Kenyan economy remains resilient.** The economy registered a 5.4 percent year-on-year growth in the first half of 2023, attributed partly to a robust 6.9 percent rebound in the agriculture sector, which has also contributed to a reduction in food inflation. Additionally, services sectors remained resilient with financial and ICT sectors experiencing significant growth (9.7 percent and 7.7 percent, respectively). On the global front, the swift escalation of monetary policy tightening in major economies has precipitated a marked rise in borrowing costs, limiting frontier economies, including Kenya, from access to international bond market. On a brighter note, bipartisan discussions are underway to ensure easing of political tensions, enhancing stability, and bolstering confidence in the economy.

2. **Headline inflation has eased within the target range of 2.5–7.5 percent since July 2023 but remained sticky in the upper part of the inflation target band as of November.** The onset of rains has led to reduced food prices, contributing significantly to the decrease in the overall inflation rate. Non-food, non-fuel (NFNF) inflation has likewise softened, reflecting the impact of tightening of monetary and fiscal policies. However, the downward trend in inflation is likely to be tempered by high global energy costs and the depreciating exchange rate passthrough effects. Amid a tightening of the monetary policy stance and of the banking sector liquidity conditions, yields on government papers have risen at a faster pace. To anchor inflationary expectations and address any second-round effects, we have raised the Central Bank Rate (CBR) by a cumulative 550 basis points since May 2022.

3. **The current account deficit has narrowed in 2023, supported by recovery to pre-COVID-19 levels in the tourism sector and declines in non-energy imports.** The trade balance has benefitted primarily from lower imports although goods exports underperformed. Decline in imports reflected lower global fuel prices and a slowdown in capital goods imports following completion of large, import-intensive infrastructure projects and the rationalization of the pipeline of public investments. Underperformance in goods exports primarily reflected a lower global demand, including economic hardship in some of the key destination markets. In addition, suspension of coffee trading licenses in an effort to streamline the value chain may have contributed to a temporary shortfall in coffee exports. Tourism receipts rebounded faster than anticipated to their pre-COVID-19 level but receipts from transportation services declined markedly and remittances remained robust. Policy tightening and exchange rate realignment, coupled with initiatives to attract foreign direct investment and enhance export performance, are anticipated to curtail and stabilize the current account deficit to roughly 4 percent of GDP in 2023 and the medium term.

4. **In FY2022/23, the primary balance remained within the program target amid a significant shortfall in tax revenues and persisting challenges in mobilizing financing.** The

primary deficit stood at 0.6 percent of GDP at end-June 2023 as opposed to a target of 1.1 percent of GDP under the program. This improvement reflected our efforts to deliver fiscal consolidation in a very challenging environment. On the revenue side, despite the adoption of Rapid Revenue Initiatives (RRIs) from the Kenya Revenue Authority (KRA) in April 2023, we experienced a tax shortfall of Ksh.148 billion (1 percent of GDP) primarily due to weaker than anticipated non-agricultural economic activity, slow execution of budgeted spending that directly affect VAT and PAYE collection, and a weakening in tax compliance. On the spending side, expenditure execution was carefully prioritized reflecting significant challenges in mobilizing not only revenues but also foreign and domestic financing as access to international bond markets remained closed for frontier economies and appetite in Kenya's domestic government paper remained limited. Slow expenditure execution resulted in the accumulation on unpaid bills (i.e., carryover) for about Ksh.100 billion (0.7 percent of GDP) at end-June 2023. Consistent with our strategy to prioritize spending execution, we have instructed all Ministries, Departments, and Agencies (MDAs) to clear the carryover on a "first charge" basis in the FY2023/24 to avoid accumulation of arrears (i.e., spending obligations outstanding for more than 90 days) as required by the conditionality of our fiscal program.

5. However, tax collection continues to lag behind expectations while showing signs of improvement compared to FY2022/23. Preliminary revenue data through end-November indicate that tax collection will likely fall short of the end-December program target by Ksh.80 billion or 0.5 percent of GDP (Table 1). The underperformance—for which we will require a waiver of non-observance based on the remedial actions described below—mainly reflected slower than anticipated mobilization of income taxes (PAYE and CIT) and excise on account of a weaker than anticipated activity in key sectors such as banking, constructions, and ICT; disruptions in tax payments due to the impact of adverse climatic events (El Niño); and continued under execution of transfers to counties and public sectors institutions (which affects payments of PAYE from public sector employees) as well as for projects (which affects VAT collection).

6. A Supplementary FY2023/24 Budget was approved by Parliament in December 2023. The Supplementary targets an overall fiscal deficit of 5.5 percent of GDP (against 4.3 percent of GDP under the approved budget and 5.6 percent of GDP in FY2022/23). The deterioration of the fiscal balance under the approved Supplementary mainly reflects the projected increase in the cost of servicing our debt due to a weaker Shilling and higher interest rates on government paper. On the expenditure side, besides the increased interest bill, the Supplementary also recognizes the clearance of carryover from the FY2022/23 (¶4) as well as unanticipated spending pressures from the education, security, and social sectors—mainly related to the implementation of our new education model, the modernization of our police, and climate change-related needs. On the revenue side, the Supplementary assumes the adoption of tax policy and administrative measures (¶7) beyond those included in the 2023 Finance Act to ensure that the tax shortfalls experienced at end-June 2023 and end-December 2023 do not undermine achievement of the end-June 2024 tax target. On the financing side, the Supplementary reflects the upscaling of the 2023 World Bank Development Policy Financing (DPF) and of the current EFF/ECF arrangement as well as the IMF support on climate

through the Resilience and Sustainability Facility (RSF), which have reduced reliance on more expensive sources of financing.

7. In December, we submitted to Parliament a package of legislative changes to sustain collection after the tax shortfall experienced at end-June 2023 and end-December 2023. Consistent with program commitments, the package consists of tax policy and administrative measures for 0.9 percent of GDP (partial year impact). Tax policy measures include: the adoption of a motor vehicle circulation tax; removal of several exemptions on interest income; reduction of selected tax expenditures on VAT and import duties; and increase in excise rates for money transfers and telecommunication data services. Tax administrative measures include improvements in the enforcement of VAT on exempt supplies; collection of debt under dispute; completion of audits on ongoing cases and improvement of audits of VAT refunds; the strengthening of taxation at the source for financial sector; and improvements of custom declaration for consolidated cargos.

8. Debt vulnerabilities remain elevated despite further fiscal consolidation amid exchange rate depreciation and higher borrowing costs. The Present Value (PV) of overall public and publicly guaranteed debt (in gross terms and as defined in the accompanying IMF-WB debt sustainability analysis) is projected to rise to about 68 percent of GDP, largely on account of valuation effects from faster exchange rate depreciation in 2023. Over the medium term, it is projected to decline to our recently approved debt anchor of 55 percent of GDP in PV terms.

9. The banking sector has remained stable and resilient albeit with increased credit and market risks. Core and total capital adequacy ratios as of September 2023 were 15.3 and 18.6 percent, respectively—above the statutory minimum of 10.5 and 14.5 percent, respectively. At the same time, the liquidity ratio stood at 49.3 percent, well above the statutory minimum of 20 percent. Growth in private sector credit stood at 12.2 percent compared to 11.6 percent in March 2023, with strong credit growth observed in manufacturing, transport and communication, trade and consumer durables. The Gross Non-Performing Loans to Gross Loans ratio increased from 13.7 percent in September 2022, to 15.0 percent in September 2023, and FX exposures have risen. Accordingly, banks are working on bolstering provisioning and capital levels.

II. MACROECONOMIC OUTLOOK

10. The medium-term outlook remains positive despite the challenging landscape in the near term.

- We expect real GDP to grow at 5.1 percent in 2023 and 5.0 percent in 2024 under the program baseline. A recovery in agriculture will contribute positively, even as a tighter policy environment will offset some of the positive momentum on domestic demand. Private domestic demand is expected to remain resilient even as public sector consolidates further but provides support for government initiatives aimed to benefit people at the bottom of the income pyramid. Investment will benefit from focus on public-private-partnership (PPP) projects and improvements in the FX market conditions.

- Inflation is projected to remain under pressure from developments in global fuel prices and exchange rate depreciation, offset partly by recovery in agriculture keeping domestic food price inflation contained and tighter policies limiting the second-round effects to NFNF.
- The current account deficit is projected to improve to about 4 percent of GDP in 2023 and stabilize around similar levels in 2024, compared to 5.2 percent of GDP in 2022. The expected narrowing of the current account deficit in 2023 is driven by a decline in imports amid lower oil prices, exchange rate adjustment, and further rationalization of capital spending. The services sector net balance is projected to remain close to its 2022 level on robust growth of tourism. Private remittances will continue growing. In 2024, the trade balance and the primary income balance are projected to worsen amid a recovery in goods imports and higher external interest payments, respectively, but will be offset by the strength in the services balances and growth in remittances.
- Over the medium term, growth is expected to average 5.3 percent under the program baseline. The private sector is expected to be the main growth driver in the medium term, benefitting from envisaged growth-friendly fiscal consolidation and measures aimed at improving competitiveness, improving business environment, inclusivity, and market efficiency. Inflation will return to the mid-point of the target band, and the current account deficit will stabilize at around 4.2 percent of GDP.

III. PROGRAM PERFORMANCE AND POLICIES

A. Program Objectives

11. Our primary policy objective is to maintain macroeconomic stability through robust and inclusive growth. Our economic policy plans—supported by the EFF/ECF arrangements—place a special focus on (i) promoting sound macroeconomic management through prudent debt policies and reforms to bolster the trajectory of the tax-to-GDP ratio as well as to improve the efficiency of public spending and support competitiveness, and (ii) fostering good governance in public resource management. Our key policy priorities for the IMF-supported program remain. These include:

- *Fiscal policy.* Undertake growth-friendly fiscal consolidation to preserve debt sustainability by bolstering revenue primarily through broadening of the domestic tax base and improving tax compliance, while promoting equity and fairness in the tax regime, curtailing overall spending, and protecting high-impact social and investment expenditure.
- *Public financial management.* Decisively increase the efficiency and transparency of public spending, including by SOEs, to eliminate waste and achieve better value for money.
- *Governance.* Enhance institutional oversight arrangements, strengthen preventive frameworks to improve accountability and foster good governance, and boost transparency.
- *Monetary policy.* Continued proactive approach to Kenya's inflation objective in recognition of needed external adjustments and near-term uncertainties on movements in global commodity prices and interest rates, while strengthening the monetary policy framework

further by refining policy operations to keep interbank overnight rate close to the policy rate and supporting vibrant interbank markets, including by enhancing operations and policies to ensure efficient functioning of the foreign exchange market.

- *Access to affordable finance*. Transform the banking sector to one that works "*for and with Kenyans*" and is anchored on pillars of customer centricity, risk-based credit pricing, transparency, and ethical banking.
- *Financial stability*. Safeguard financial stability by enhancing prudential regulation and supervision, strengthening operational tools in the context of increasing financial sector complexity and risks and ensuring smooth functioning of financial markets.
- *Structural reforms*. Deepen structural reforms to improve the business environment, governance and boost investment, employment creation, gender inclusivity, exports, addressing climate challenges, and potential growth.
- *Statistics*. Improve data quality in line with international best practices to support economic policymaking, transparency, and accountability.

B. Program Performance

12. The quantitative targets are met with the exceptions of the end-June 2023 target on tax collections and the continuous performance criterion on no new external payment arrears, while six out of the seven June—October 2023 structural benchmarks have been implemented with delays.

- *Quantitative performance criteria (QPCs, Table 1):* The end-June 2023 targets on the fiscal primary balance, net international reserves, no new domestic guarantees, and present value (PV) of contracting or guaranteeing of new external debt are met but the one on taxes fell short by a significant margin and is expected to be missed also at end-December 2023 (¶5). To address the tax shortfalls, we introduced corrective tax measures in December 2023 (¶7). We missed the continuous performance criteria on no new accumulation of external payment arrears by a small margin (US$0.51 million) due to delays in processing a payment voucher to settle debt repayment. The arrears were cleared by November 6th and to avoid recurrence of external arrears in future, we have taken corrective actions in the form of end of day reconciliation of payments vouchers against actual remittances of debt service payments. In addition, we will strengthen compliance on debt reporting by SOEs to avoid future lapses in settlement of debt service payments.
- *Indicative targets (ITs, Table 1):* The end-June 2023 indicative targets on priority social expenditure and exchequer requests outstanding for more than 90 days were met.
- *Monetary policy consultation clause (MPCC, Table 1):* The MPCC was triggered for end-June 2023 as the three-month average of inflation (7.9 percent) was outside the inflation target band of 2.5–7.5 percent. We completed the consultation with the IMF Board in July.

- *Structural benchmarks (SBs, Table 2):* though the seven SBs for June-October 2023 were not realized by the expected target date, six of them have now been implemented and the remaining one is being proposed to be reset.
  - *End-June 2023 SB*. Amendments to AML/CFT was submitted to the National Assembly in July 2023 to be in line with FATF standards by addressing shortcomings identified in the 2022 Mutual Evaluation Report was completed in July 2023.
  - *End-August 2023 SB*. The taskforce that was set up to review the fuel pricing mechanism to ensure that domestic price decisions are aligned with budgeted resources shared its recommendations with National Treasury in September 2023. However, the need to secure stakeholders' buy-in of such recommendations took longer than expected, making it possible to publicly communicate (press release) the findings of the taskforce only on December 11, 2023.
  - *End-September 2023 SBs*. While a Pending Bill Review Committee was formed in September 2023 through a gazette notification, the launch of the works on a comprehensive strategy to manage the stock of outstanding pending bills at end-June 2022 and address weakness in PFM systems that lead to the accumulation of pending bills only started in November2023. It is now proposed that approval of the Strategy by Cabinet be reset to end-February 2024. The special audit of the supplementary budgeting, including under Article 223 of the Constitution, took longer than anticipated due to expansion of the scope of the audit and delays in securing Exchequer funding for the audit. The audit report has been completed and was submitted to Parliament and its findings were made public in December 2023.
  - *End-October 2023 SBs.* A Supplementary FY2023/24 Budget, consistent with the program's targets as approved at the fifth EFF/ECF reviews, was submitted to Parliament in October but submission of additional tax measures needed to ensure achievement of FY2023/24 tax targets was only possible in December 2023 due to delays in preparing and vetting the proposed amendments to the tax laws. Submissions to the Cabinet of an Ownership Policy for the state corporations and the Medium-Term Revenue Strategy (MTRS) were delayed due to longer-than-expected stakeholder consultations. The Ownership Policy was approved by the Cabinet on November 3, 2023, and was subsequently published on the National Treasury website, while the MTRS, along with its implementation strategy, was approved by the Cabinet on November 27, 2023.

C. Fiscal Policy

13. Our fiscal policy path recognizes the pressing need for debt trajectory to be firmly put on a downward path over the medium term to reduce debt vulnerabilities amid significant external and domestic challenges. A weaker than anticipated Shilling and higher cost of borrowing have significantly increased the interest payment obligations on our debt, putting pressures on the fiscal deficit and subsequently on the level of debt. On the domestic side, the increase in the cost of living and doing business is reducing the resources available to households

and businesses, creating social tensions and demands for a more equitable fiscal adjustment. Our policies endeavor to strike an appropriate balance (i.e., addressing rising debt and social discontent) while recognizing the difficult tradeoffs exacted by Kenya's limited fiscal space and continued financing constraints. Accordingly, the focus of our fiscal policy remains on reducing the deficit further by broadening the revenue base consistent with our medium-term revenue strategy (MTRS, ¶23) and containing non-priority expenditures while enhancing social safety nets with the support of our development partners. This will put firmly the debt-to-GDP ratio on a downward path within the program period and support economic growth by lowering financing risks and facilitating an expansion of credit to the private sector.

14. The cost of our debt obligations is now projected to increase significantly more than originally budgeted in FY2023/24 amid high interest rates and a weaker Shilling. The recently approved Supplementary I FY2023/24 Budget projects interest payments at Ksh.919 billion compared to Ksh.775 billion in the Budget, equivalent to an increase of about 1 percent of GDP. The main driver of this increase is set to be foreign interest obligations that are anticipated to jump from Ksh.147 billion in the Budget to Ksh.273 billion in the Supplementary Budget. This increase in interest spending requires an additional fiscal adjustment to contain the widening of the fiscal deficit and maintain the debt burden at sustainable levels.

15. We are strongly committed to avoiding higher interest payments undermining confidence in our objective of reducing debt and debt vulnerabilities. Accordingly, we intend to strengthen our consolidation efforts under the program and ensure that Kenya reaches the new debt anchor of 55 percent of GDP in PV terms by 2029, as indicated by Parliament within 5 years. Compared to the 5th review of the EFF/ECF arrangements, we will implement an additional frontloaded improvement in the primary surplus of 0.4 and 0.8 percentage points of GDP in FY2023/24 and FY2024/25, respectively (¶16 and ¶18).

16. In FY2023/24, we will contain the fiscal deficit to 4.7 percent of GDP by targeting an improvement in the primary surplus compared to the Supplementary Budget. The improvement in the primary surplus will be achieved through a combination of new non-tax revenue and spending rationalization measures. In November 2023, we commenced the process of introducing additional non-tax measures through delegated legislation and we expect these to become effective once the constitutionally mandated process of public consultation is concluded. Other non-tax measures were submitted to Parliament in December including related to increases in fees and charges related to immigration and citizen services and land ownership transactions, so as to ensure achievement of our primary balance targets in FY2023/24 and beyond. The expected yield of these measures is 0.2 percent of GDP. Regarding expenditures, we have taken steps to carefully execute investment spending—particularly related to slow-moving projects—to generate about 0.2 percentage points of GDP in savings compared to the capital spending envelop under the approved Supplementary FY2023/24 Budget. We will submit to Parliament by end-March 2024 (***proposed SB***) a new Supplementary II FY2023/24 Budget to reflect these additional savings.

17. We are strongly committed to ensuring that current cashflow difficulties do not result in accumulation of arrears (program Indicative Target). To this end, we will: i) take the necessary

steps to ensure efficient operation of the government securities market (¶31) to support liquidity (technical assistance from the IMF is expected in the first half of 2024); ii) prioritize clearance of the spending carryover from FY2022/23 and exchequer requests submitted in our payment system (IFIMIS) three months prior to each test date (end-December 2023 and end-September 2024); iii) limit any potential carryover to FY2024/25 of exchequer requests introduced in IFIMIS after April 1, 2024, and having a corresponding budget appropriation in the FY2024/25 budget, consistent with the "first charge" principle enshrined in our Public Finance Management Regulations, 2015, Section 42(a) and the National Treasury Implementation Guidelines issued at the beginning of the execution of budget each year; and if need be iv) instruct Ministries, Departments, and Agencies (MDAs) to carefully prioritize execution of FY2024/25 commitments with a view to clear any potential carryover within end-September 2024; and v) submit to Parliament by end-October 2024 a Supplementary FY2024/25 Budget to ensure that clearance of any potential carryovers from FY2024/25 does not undermine achievement of our fiscal targets for the current and next fiscal years.

18. The FY2024/25 budget proposal will be consistent with our revised and more ambitious fiscal consolidation path (*proposed end-April 2024 SB*). The proposal targets an overall fiscal deficit and a primary balance surplus of 3.5 and 1.7 percent of GDP respectively (compared to 4.0 and 0.9 percent of GDP at the time of the 5th reviews). The strong projected targets reflect the combination of planned and new measures on the revenue and spending side. On the revenue side, we will adopt as planned the tax measures envisaged under the first year of implementation of our Medium-Term Revenue Strategy (¶23)—which will be reflected in the 2024 Finance Bill and are conservatively expected to yield 0.3 percent of GDP—and enjoy the full-year impact of the non-tax measures implemented in FY2023/24 (¶16), the scope of which will be broadened to achieve a total non-tax revenue yield of about 0.3 percentage points of GDP. On expenditure side, the proposal leverages our efforts to rationalize the non-priority spending by seeking new saving for about 0.6 percent of GDP in recurrent spending (covering arears such as travels, allowances, and hospitality) and non-priority capital projects through further rationalization of the portfolio of projects.

19. The clearance of pending bills and other government arrears remains a priority. In September 2023, the Cabinet established a Pending Bills Verification Committee, effective until September 2024, to scrutinize the existing national government arrears accumulated between end-June 2005 and end-June 2022. During FY2022/23, we accumulated about Ksh.100 billion (Ksh.77.5 billion in pending bills and Ksh.27 billion of oil and fuel subsidies arrears), of which we have already settled about Ksh.40 billion in September 2023, and we plan to settle the reminder during this fiscal year. The Committee is tasked to verify the stock of pending bills, provide recommendations for their settlement (e.g., payment, cancellation, legal actions for false or fraudulent claims), and propose measures to avoid future accumulation of arrears. The committee is now expected to submit an interim report by end-December 2023. National Treasury will publish a comprehensive, timebound strategy to (i) propose measures to address the shortcomings in the PFM systems that led to accumulation of pending bills and other arrears, including the definition of expenditure arrears; (ii) propose criteria for clearing validated arrears over an identified period

consistent with our overarching objective to reduce debt and debt vulnerabilities; and (iii) outline a schedule and principles for settlement of verified pending bills and other government arrears (***proposed end-February 2024 SB***).

20. Going forward, we are committed to timely implementation of reforms to broaden the domestic tax base and improve tax compliance, critical for achieving our revenue objectives of reversing the trajectory of the tax-to-GDP ratio while also promoting equity and fairness in the tax regime. To achieve this, we plan to introduce the tax policy measures envisaged under the second year of implementation of our MTRS to yield about 0.4 percent of GDP in FY2025/26. We will also continue to contain recurrent expenditure-to-GDP ratio by limiting the growth in the wage bill and transfers to public companies, while protecting priority social spending and keeping development spending close to 5 percent of GDP.

21. Uncertainties associated with global and domestic shocks entail high risks to our fiscal program and reinforce the need for contingency planning. The uncertainty is particularly pronounced for government revenues, as rapid changes in the macroeconomic context—including from further ramifications of the war in Ukraine, spillovers from the conflict in Gaza, and social opposition to change—could depress tax receipts. To ensure that program performance objectives are met, any tax revenue shortfall relative to program targets will be compensated for by taking additional revenue policy measures, drawing from the work done in the context of the MTRS with the support of the IMF.[1] We also stand ready to further curtail non-critical spending, if this should become necessary, to offset further spending pressures.

22. We attach high priority to the management of fiscal risks. The recently established Fiscal Risk Committee— within the National Treasury (NT)—will help monitor and assess fiscal risks, including risks related to contingent liabilities from Public Private Partnerships (PPPs). The inaugural meeting of the Fiscal Risk Committee took place on December 2022. The Committee held its last meeting on October 31, 2023, and will continue to hold quarterly meetings consistent with its approved meeting calendar. Reflecting on this work, we will expand the fiscal risk statement for FY2024/25, including those related to climate change (¶64).

D. Fiscal Structural Reforms

23. We will start in early 2024 the implementation of our first MTRS developed with assistance from the IMF. We will submit the MTRS to Parliament together with the 2024 Budget Policy Statement by February 2024. We will include in the 2024 Finance Bill all the measures envisaged under the first year of implementation of the MTRS. In addition, we intend to strengthen the MTRS governance and process by establishing a formal monitoring process at the ministerial level by end-February 2024 with a view to strengthen the political commitment, produce quarterly progress reports, and speedily resolve emerging issues on implementation (***proposed end-February 2024 SB***).

[1] Possible contingency measures could also include non-tax measures related to the recently adopted Environmental Law.

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

- Developing and implementing risk-based compliance strategies. Compliance risk management capacity has improved significantly over recent years—including by restructuring our Compliance Risk Management Committee in November 2022. Going forward we plan to monitor and evaluate the compliance improvement strategies and report the status of implementation to the committee on quarterly basis. To this end, we are advancing the work to on the following initiatives: (i) full roll-out of risk-differential framework (RDF) and risk profiling tool in the selection of cases for compliance reviews and audits by June 2024; and (ii) full roll-out and use of case management tool in processing all cases in the system.
- Strengthening KRA's audit function. Several actions have been taken to rebuild audit capacity, including to refresh and upgrade staff skills, strengthen feedback loops between the disputes and audit areas, and initiate process changes and capability enhancements to improve quality and establish mechanisms for assessing the impact of the audit function on compliance by end-June 2023. Progress is being made to undertake the following initiatives by June 2024: (i) training of computer audit specialists and equipping them with advanced MS Excel technique; and (ii) set up audit quality review teams for all Nairobi Tax Service Offices by June 2024.
- Strengthening data analytics to support compliance risk management (CRM). We are making good progress in enhancing the use of data to improve taxpayer compliance. The recently approved data management strategy aims to increase the usage of data and analytics for compliance risk management through: (i) integration with key third party sources for revenue assurance and risk management—integration with telecommunication companies has commenced and will be finalized by June 2024; (ii) implementation of advanced analytics and expert models of fraud detection and risk management; (iii) reconciliation and migration of taxpayer ledgers from the legacy system, which will be completed by June 2024. We have experienced some delays in developing credible and reliable taxpayer register of the Large Taxpayer Office (LTO), Medium Taxpayer Office (MTO), and deregistered companies' data due to objections by some taxpayers to deregister their companies or obligations that are in-active. We now expect that the taxpayer register of the LTO, MTO and deregistered companies be developed by end-December 2023. By June 2024, we will have cleaned the data for all taxpayers with other incomes except employment income.
- Managing exemptions. Building on our efforts to improve tax enforcement and compliance for exemptions (VAT, import duty, import declaration fee, railway development levy, excise duty), we have completed verification of 27 provisions on VAT exercises. We monitor on-going projects and will broaden VAT exemption verification at customs to new areas, including those administered under the East African Community Customs Management Act, by end-March 2024.

25. Avoiding delays in payment of tax refund claims. KRA will establish dedicated teams at Regional Audit Centers for timely tax refund case audits. To expedite refund processing and reduce administrative burdens, KRA is undertaking the following measures: (a) implement by December 2023 a risk-profiling tool to identify high-risk cases deserving prepayment audits, rather than auditing all first-time claimants; (b) establish by December 2023 dedicated teams for continuous reconciliation of taxpayer ledgers given that debt validation after claim lodgment causes delays in refund processing; (c) develop by December 2023 performance contracts aimed at reducing the claim processing time to 60 days, with a medium-term goal of achieving a 30-day processing time; and (d) undertake by February 2024 system integration (iTax and iCMS) for real-time confirmation of exports given that exports are the key driver of refunds. To achieve an integrated system, we will finalize the procurement and implementation plan of the new system by December 2024. The National Treasury will prioritize allocation and transfer sufficient funds to KRA to meet tax refunds needs in accordance with the Government Strategy on Verification and Clearance of Pending Bills.

26. We are working diligently to strengthen our public procurement system. We are in the process of acquiring an e-Government Procurement (e-GP) System that will be end-to-end where all public procurement and assets disposal transactions are undertaken online and are fully compliant with the Public Procurement and Asset Disposal Act (PPADA) of 2015 and its attendant Regulations 2020. The developed e-GP system will be interfaced with our Integrated Financial Management Information System (IFMIS) to process payments of contracted suppliers. We are piloting the new e-GP system in twelve (12) MDAs. Roll-out of the entire system to all MDAs will be from July 2024. We are looking forward to necessary support from the World Bank especially in the area of capacity building of the system users in procuring entities and within business community. In the meantime, we have updated the IFMIS, procuring entities will continue using the IFMIS e-Procurement module until the new e-GP system is fully rolled out to allow for seamless transition.

27. We expect significant savings from controlling the government wage bill. We continue pursuing our objective of reducing the ratio of the government wage bill as share of tax revenue with a view to free much-needed resources for priority social and development spending. To this end, we implemented a wage freeze for FY2021/22 and FY2022/23, and we have eliminated and streamlined a number of allowances. Further actions planned in relation to controlling the wage bill include:

- Harmonize and rationalize the categories, rates, and rules for allowances. Consistent with the Salaries and Remuneration Commission (SRC) objectives of containing allowances to no more than 40 percent of gross pay overtime, the SRC has implemented changes to the remuneration of state officers, including to link rewards to performance, and to review bonus and allowances requests from public institutions. The SRC plans to substantially reduce the number of allowances (from the current 247) to ensure that these are well-targeted and reflect specific job circumstances and skills. Several allowances have ceased to be payable and daily subsistence allowance for local travel have been standardised across the country.

- Implement a common payroll system linked to IFMIS across MDAs and Counties. We have rolled the Unified Human Resource (UHR) system—which will consolidate Human Resource and Payroll data in the Public Service for access through a single warehouse. Since July 2023, the UHR system is linked to Kenya Revenue Authority i-Tax to facilitate filing of PAYE tax element associated with individual employees and total monthly PAYE tax obligation from the State Departments. We will incorporate the other deductions to enable all remittances to be sent to respective entities including Pension Funds and other employees' contributions schemes by July 2024.
- We intend to roll out the UHR system for the entire Public Service by July 2024. The roll out of the UHR will be carried out in phases. Phase 1 entailed rolling out the system to all MDAs and Counties, implemented in September 2023. Phase 2 involved the roll out to all State Agencies that have adopted the Unified Payroll Numbering (UPN) System—including to Teachers Service Commission (TSC). The 349,000 teachers under TSC have been issued with UPN. Phase 3 will entail issuing the UPN to all Commissions and Independent Offices, State Corporations, Public Universities, and Agencies by July 2024.
- Ensuring that Collective Bargaining Agreements consider available resources. The SRC will progressively review allowances and benefits in the future Collective Bargaining Agreements and align them to the provisions of the Allowances Policy Framework for the Public Service.

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

- *Rationalizing existing projects***.** Based on a Cabinet decision to thoroughly review 437 stalled or underperforming projects, MDAs conducted physical audits and have submitted their analysis to NT for review and validation, expected to be finalized end-February 2024. Through the Office of the Attorney General and Department of Justice, NT will table a cabinet memo on the final status of all stalled projects, recommending either suspension, continuation, or cancellation. Furthermore, NT will issue a circular to MDAs to prioritize funding for projects decided for implementation and in the FY2024/25 budget and beyond in line with PFM Regulations of 2022 and debt sustainability analysis.
- *Operationalizing the recently developed Public Investment Management Information System (PIMIS) to automate public investment management process*. The PIMIS is being piloted in roads, infrastructure, health, and education sectors. Informed by the piloting phase, the PIMIS will be populated with all ongoing and new projects, including PPPs, and covering all other sectors of the government by end-June 2024. The PIM department will expand with additional staff to enhance its project appraisal capacity by March 2024.

29. Strengthening Public Finance Management (PFM) remains a priority going forward. While MDAs have been trained and now use a common costing approach through the Hyperion system to submit their annual budget requests, we intend to strengthen expenditure control and improve the efficiency and effectiveness of public spending by pursuing the following milestones:

- By end-June 2024, the Cabinet Secretary will submit a proposal to the National Assembly to enhance legal procedures governing the use of supplementary appropriations under Article 223 of the Constitution. The proposed procedures will address the current legal gaps in regard to the application of Article 223. By end-April 2024, with enhanced IFMIS that enables registration of all multi-year commitments in IFMIS and updated PFM regulations 2015 (article 56), MDAs will register multi-year commitments in IFMIS starting with the FY2024/25 Budget.[2]
- By end-March 2024, we will prepare an updated and complete list of Extra-Budgetary Units following GFSM 2014 to include Public Funds, Semi-autonomous Government Agencies (SAGAs), and noncommercial State Corporations.
- By end-December 2024, we will complete a comprehensive review of Extra-Budgetary units and submit a report to Cabinet with recommendations to merge, consolidate, dissolve /wind up or transfer back to MDAs.
- By end-February 2024, NT will approve the PFM reform strategy 2023–28, which will provide a roadmap for strengthening budget credibility, enhancing transparency, integrating cross-cutting policies (climate change, gender, digitalization) into the PFM system with aim to increase efficiency of public finances and improve public services.

30. We are taking decisive steps to ensure that decisions on domestic fuel prices are aligned with budgeted resources. We eliminated overall subsidies on March 15, 2023, and cross-subsidies on May 15, 2023. Consistent with the new administration's priorities and program commitments, we established, albeit with delay, a taskforce in October 2023—comprising members from NT, Ministry of Energy and Petroleum and the Energy and Petroleum Regulatory Authority (EPRA)—to review the functioning of the fuel pricing mechanism so far and provide recommendations on how to ensure that fuel pricing decisions are at all times aligned with the budgeted resources. The findings of the taskforce were publicly communicated on December 11, 2023 through a press release. To ringfence the resources budgeted for price stabilization purposes, we (National Treasury and Ministry of Energy) intend to perform and publish an assessment of the governance structure of the Petroleum Development Fund and recommend actions to strengthen its management (***proposed end-March 2024 SB***). Consistent with our requests for access under the IMF's Resilience and Sustainability Facility (RSF), we are committed to transitioning to low-carbon economy by avoiding fossil fuel subsidies going forward.

[2] In Kenya, budgets are appropriated on an annual basis. Commitments within a Financial Year are reversed at the end of the Financial Year and recaptured at the beginning of the subsequent FY as opening balances. The Government of Kenya (GoK) currently uses cash basis of accounting. Multi-year commitments are effectively accounted for in an accrual accounting system. Currently, IFMIS captures annual commitments which lapse at the end of a FY. The proposed SCOA migration based on GFSM 2014 supports accrual accounting. IFMIS has implemented commitment controls based on annual cash plans, consistent with appropriated budgets. IFMIS Cash Planning module enables entities to manage expenditures and provides visibility of monthly commitments within a fiscal year. Implementation of budget reforms such as budget costing and planning module in IFMIS will enhance realistic medium-term budgeting and expenditure commitments through the cash plans. The Hyperion Planning module will also be able to lock in the medium-term projections and commitments.

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

- Reducing domestic refinancing risks. The ratio of Treasury bonds to Treasury bills increased from 85:15 in December 2022 to 88:12 in September 2023 indicating the ongoing implementation of government debt strategy aimed at reducing rollover risks in the medium term. The average time to maturity of outstanding Treasury bonds has declined to 7.4 years from 8.9 years in December 2022 representing the challenging illiquid domestic debt market and investor preference for shorter tenor securities.
- Primary reliance on concessional external financing. In financing the FY2023/24 fiscal deficit, we will continue relying on the concessional financing from development partners. We are negotiating with the World Bank to increase the expected Development Policy Operations lending as well as the funding under the Performance for Results, and the resources from the Africa Development Bank is expected to be Euro 88 million. Rolling over of the Eurobond maturing in 2024 in is a major challenge but the processes are underway. The National Treasury procured international lead managers and counsels in September 2023 to pave the way to tap the international bond market at an opportune time. It is the Government's intention to go to the international bond markets as soon as the market situation allows. Additionally, we are pursuing alternative sources of financing from multilateral and bilateral lenders and the syndicated loans market. In this regard, we issued a mandate and are close to concluding negotiations with Trade Development Bank for a syndicated loan arrangement.
- Strengthening the legal framework for PFM:
    - The new amended 2012 PFM Act has replaced the nominal debt limit of Ksh.10 trillion with a debt anchor at 55 percent of GDP in present value (PV), with an allowance of ±5 percent was approved by Parliament. The Cabinet Secretary is required to submit to Parliament a written explanation in instances where the debt anchor has been breached. Notably, it is expected that the new debt threshold will serve as a signal to the financial markets.
    - While new regulations on operational framework for public debt management were planned to be completed by end-December 2023, we will form a taskforce of experts from the Attorney General's Office, the Central Bank of Kenya (CBK), the Parliamentary Budget Office, and NT to present recommendations through PFM regulations or legal measures on an operational framework for achieving the debt anchor by end-March 2024. The regulations will help clarify responsibilities relating to debt management, independent monitoring, and transparency. We intend to strengthen the functions of the Parliamentary Budget Office to assess macro-fiscal forecasts, monitor the debt dynamics, and periodically report—to the National Assembly and public—on achievement of debt anchor. We will adopt a well-defined escape clause and correction mechanism.
- We are committed to broadening the reporting of State Corporations (SCs) non-guaranteed debts (excluding debt to government which is already captured in existing metrics).

    - In the Public Debt Management Report (PDMR) of the FY2022/23, we reported debt information provided by various SCs and the debt outstanding as at end June 2023. Twenty-five (25) out of 260 SCs had non-guaranteed debt amounting to Ksh.111,805 million (0.8 percent GDP). The National Treasury wrote to all the SOEs to submit their debt status. Out of all the SCs, a total of 53 responded with only 25 out of the respondents indicating that they have outstanding debts.
    - As a reform initiative, the Government continues to expand reporting on public debt by including non-guaranteed debt held by SCs to enhance accountability and transparency in debt management. The Government is in the process of implementing a digital platform, Government Investment Management Information System (GIMIS), to digitize and ease the collection of these critical public finance statistics. Over the medium-term, the coverage and reporting of SCs' outstanding debt is expected to improve significantly.
- Reforms to deepen the domestic debt securities market:
    - We introduced automation of processes via the deployment of the new Central Securities Depository System (CSD). Introduction of the new CSD to transact directly in the primary and secondary markets will also enable the launch of an active horizontal repo market, increasing market liquidity.
    - We will further enhance the market infrastructure through policy support to market participants to operationalize an over-the-counter automated exchange to compliment the broker intermediated Nairobi Securities Exchange. The aim of the exchange will be to promote trading transparency and settlement efficiency and attract more capital in the economy eventually leading to reduction of yields and cost of new public debt issue. later in the year.

32. Public Private Partnerships (PPPs). We will carefully evaluate cost and risks associated with PPPs. Our aim is to ensure that only projects with the highest socio-economic returns are chosen and fully integrated into the PIM planning and monitoring framework. In alignment with the provisions of the PFM (PIM) Regulations, 2022, the NT will develop a joint PIPM-PPP Framework by December 2023. This framework will establish a high-level committee composed of General Directors of the NT. The primary objective of this committee will be to determine the most suitable procurement method for large public projects, whether through the traditional on-budget public procurement method or through the PPP framework.

33. The PPP Directorate will continue to strengthen its reporting on risks. To this end, in collaboration with contracting authorities and in alignment with the PPP Act, we will maintain an online public register of all active PPP projects and publish summaries of all PPP contracts as well as the contracts themselves, excluding confidential or protected information. In line with the reporting requirements under section 88 of the PPP Act 2021, the PPP Directorate submitted the 2nd Annual Report on the State of Public Private Partnerships in Kenya for FY2022/23 to Parliament. The report includes Fiscal Commitments and Contingent Liabilities for PPP Projects.

34. Pension reform. To ensure sustainability of the public service pension system, we introduced, on January 1, 2021, a funded contributory pension scheme for public sector employees (Public Service Superannuation Scheme (PSSS)). To sustain and strengthen the pension reforms, we will monitor and completely separate and delink the governance of the PSSS from that of the non-contributory scheme. Furthermore, we will revamp the public service pension administration through digitization and re-engineering of the pension management system, expected to be completed by December 2024. Digitization will streamline processes, improve accuracy, and facilitate timely pensions payments. This also enable better monitoring and management of pension-related matters while re-engineering will complement the digitization by availing an end-to-end Enterprise Resource Planning (ERP) solution that takes advantage of the modern IT technologies. To ensure that the pension scheme remains sustainable and that beneficiaries receive their entitled benefits, we will conduct an actuarial valuation of the future obligations of the non-contributory defined benefits pension scheme by December 2024.

E. State-Owned Enterprises

35. The Kenya Kwanza administration has identified its policy priorities for the state-owned enterprises (SOEs). The new SOE policy priorities of the government include a more accelerated privatization process; more streamlined governance structures with clear roles and responsibilities among the entity stakeholders (boards, management, employees); more efficient utilization of budgetary resources; better management of fiscal risks; and enhanced accountability.

36. The SOE sector continued to require extraordinary support in FY2022/23 but the cumulative support over FY2021/22 and FY2022/23 remained within the space provided for and in line with the program. The Supplementary Budget for FY2022/23 provided for budgetary support of Ksh.19 billion for Kenya Airways (KQ), excluding the servicing of its guaranteed external debt, and Ksh.2.358 billion for Kenya Power and Lighting Company (KPLC), out of which actual support was Ksh.10 billion to KQ. In addition, the government serviced the debt service payments on KQ's guaranteed senior external debt, which the airline failed to service, and paid US$95 million in FY2022/23 on KQ's behalf. Both KQ and KPLC enjoy moratorium on debt service for the amounts owed to the government. At present, KQ has a negative equity and KPLC was facing financial challenges including servicing of its debts. However, with the on-going implementation of the Action Plan, KPLC's liquidity position is improving. The government is evaluating various strategies and options to turn around the airline with minimal budgetary implications and the least fiscal impact.

37. We continue to make progress in assessing, monitoring, and addressing vulnerabilities in the SOE sector, in line with our staged approach. Our financial evaluations had earlier identified a cumulative Ksh.383 billion liquidity gap over five years for 18 SOEs involving the largest financial and fiscal risks (excluding Kenya Airways). This gap is expected to be primarily covered via SOEs' cost-saving measures, which partially materialized and were reflected in the FY2021/22 financial results. In light of the economic developments over the past one year, NT is in the process of updating this financial evaluation by end-June 2024 for fifty State Corporations (SCs), using their

FY2022/23 audited accounts, to quantify fiscal risks emanating from SOEs. The outcome of the financial evaluation exercise will be reported by NT to the Fiscal Risk Committee by end-June 2024 (***SB***).

KPLC

38. The Action Plan to restore KPLC's medium-term profitability and cover liquidity gaps (end-December 2022 SB) was approved by the Cabinet on May 16, 2023. Following the approval, the KPLC embarked on implementation. On November 10, 2023, KPLC shareholders approved an amendment to the company's memorandum and articles of association to provide for private sector fair representation in the board in line with the best corporate governance. Consequently, the structure of the KPLC Board of Directors will now reflect the shareholding structure and accommodate the interests of both the Government and private shareholders as follows:

- *Class A:* Ordinary Shares held by Shareholders of the Company other than those shares held by the National Treasury; and
- *Class B:* Ordinary Shares held by the National Treasury.

The holders of Class A shares (49.9 percent) will be entitled to elect to the Board four (4) directors while the holder of Class B/The National Treasury shares (50.1 percent) shall be entitled to appoint to the Board five directors. The KPLC Board have also established a Nomination Committee to ensure that the Board is properly constituted. The onboarding of new directors will also be based on the identified competencies and skills gap at the Board level. The procedure for the nomination for election of new board members shall be rigorous and transparent. In this regard, the Board will use the services of independent consultants to assist in identifying suitable nominees based on qualifications, experience and track record that demonstrate ability to add value to the company as a director.

39. In line with the Action Plan, KPLC will (i) by the end-December 2024, transfer all transmission assets/lines to Kenya Electricity Transmission Company (KETRACO) and pay through the use of on-lent loans from the government upon valuation, (ii) by end-December 2024, settle the outstanding Rural Electrification Schemes (RES) operations and maintenance cost deficit of Ksh.19.4 billion (assessed as of June 2022) and ensure that KPLC and Rural Electrification and Renewable Energy Corporation (REREC) enter into a commercial contract for the future RES maintenance cost, (iii) develop and implement a turnaround strategy which includes the reduction of system losses from the current 22.4 percent to 14.4 percent by end-June 2025 (broken down into reduction of 5 percent on commercial losses, 2 percent on technical losses and 1 percent on transmission losses), and (iv) by end-December 2024, establish a new governance structure at KPLC to give private shareholders fair representation, reflecting the company's shareholding structure. We estimate that with support from the new tariff structure, continued passthroughs of variable costs, and effective and timely implementation of the Action Plan, KPLC's liquidity gap will see an accelerated reduction by FY2025/26, excluding any major investments in new assets, and its quick

ratio will improve to unity. We do not envisage any risks occasioned by KPLC's restructuring on the other entities in the energy sector (i.e., KETRACO and REREC).

Kenya Airways PLC

40. Commercial performance paired with initiatives under the restructuring plan and governmental support, including on servicing the guaranteed external debt, have had a marginally positive impact on KQ's financial results. KQ recorded a lower operating loss in 2022 of Ksh.5.6 billion driven primarily by growth in revenues and despite increases in direct operating costs. Quite notably, the passenger numbers increased by 68 percent to 3.7 million in 2022, with capacity increasing by 75 percent, although both were yet to reach the pre-Covid-19 levels. However, increased fuel prices and forex losses on account of a depreciating Kenyan Shilling, resulting in a huge provision on the dollar-denominated loans, adversely impacted KQ's balance sheet. As a result, KQ's net losses rose from Ksh.16 billion in 2021 to Ksh.38 billion in 2022. In the first six months of 2023, KQ recorded operational profit but due to FX losses incurred net losses.

41. KQ's indebtedness remains very high. As of end-June 2023, KQ had total outstanding liabilities of Ksh.302 billion, including outstanding claims on KQ by the government on account of its past and ongoing support, of which Ksh.177 billion was long-term liabilities. Short-term liabilities amounted to Ksh.125 billion, comprising fuel (14 percent), landing fees (39 percent), leases (16 percent), payroll (13 percent) and taxes/statutory dues (17 percent). The company is in a negative equity position of Ksh.133 billion.

42. The detailed business restructuring action plan, prepared in May 2022, has been put on hold to reassess the least-cost approach for budget. It is the stated objective of the government that KQ should be weaned off budgetary support by December 2023. In this regard, the government, in November 2022 directed the Ministry of Roads and Transport and NT to review the current and other restructuring strategies for KQ and recommend the optimal strategy with the least fiscal impact to the government. A draft Cabinet Memorandum with strategic options and recommendations was submitted to the Cabinet in May 2023 on which the Cabinet made suggestions for further discussions. It is expected that a decision will be ready by end-April 2024 (***proposed SB***). Once the government gives direction on the way forward, a new plan will be implemented, and financial resources committed to the same if needed with an understanding that it will have to be accommodated within the fiscal consolidation path consistent with reducing Kenya's PV of overall debt to GDP to 55 percent by 2029. Meanwhile, government financial support in 2023 has been limited to the payments under the guaranteed senior external debt.

43. The Government is taking the following actions to stem the fiscal risks emanating from the investment in KQ:

- The novation of government guaranteed loans totaling about US$485.5 million (current balance: about US$365 million) has been completed. GoK has effectively taken over the loan and continues to service the debt obligations.

- The government directed KQ to onboard a consultant to support the onboarding of an equity investor who can inject capital into the business. The procurement of the consultant is in the final stage and should be completed by the end of December 2023 with the aim of closing the deal by the end of June 2024.
- In a parallel measure, the government is also exploring a privatization mechanism where some target companies are consolidated, and a fund set up to manage them. Such a model has sufficiently worked in Romania, and we are engaging the consultants who delivered the model to advise on the same. The model of the fund is meant to package both profit-making and loss-making entities hence sharing interest in the unattractive companies in pursuit of the attractive ones by investors. A decision on the same shall be made by the end of June 2024.

SOE Governance and Oversight Arrangements:

44. Rationalization of the SCs portfolio will be prioritized going forward and we remain committed to strengthening SCs' governance and oversight. We will revise our ongoing strategy (Blueprint) to align it with the new policy priorities, with the aim of efficiently integrating and sequencing reform measures considering the broader reform agenda for the SCs.

- By end-January 2024, we will secure Cabinet approval and publication of an updated inventory and a new classification of SCs that will apply across the government, in line with the National Treasury Strategy for Improving Financing Oversight of State Corporations document (***proposed SB***).
- We continue to upload on the NT website the audited financial statements and annual reports of SCs as we receive them from the Auditor General. By end-August 2023, we uploaded audited financial statements and annual reports for FY2020/21 of 60 SCs and FY2021/22 reports of the 42 largest SCs. We will ensure continuous disclosure thereof.
- We have also uploaded the FY2020/21 and FY2021/22 Annual Performance Contracting Evaluation Reports of the SCs. Going forward, we will continue to upload such annual reports.
- Under the Government Investment Management Information System (GIMIS), we have developed a loans module to allow capturing of disbursements and repayments of SC loans data. We are in the process of developing, by end-June 2024, an analytical framework for Financial Evaluation and Risks Analysis and integrate it as an additional module to GIMIS that will facilitate the identification, quantification, monitoring, reporting, and management of fiscal risks stemming from SCs, including guarantees and contingent liabilities. However, technical assistance support will be needed for this action.
- We have developed draft regulations (currently undergoing internal reviews) to adjust organizational arrangements within NT for financial oversight of SCs and ensure that the role and functions for government investments as a core function is fully provided for in the legislative framework by end-December 2023.

- An Ownership Policy for Government Owned Enterprises (GOEs), describing a new governance architecture and legal ecosystem to enable enhanced performance and transparency was approved by Cabinet on November 3, 2023, and published subsequently in the same month (***end-October 2023 SB***). Following international standards, it details a new governance architecture and legal ecosystem to improve performance and transparency, including centralizing ownership and oversight functions in NT, outlining the government's rationale for state ownership, strengthening Boards of Directors' mandate while safeguarding them from political influence and establishing guiding principles for SCs to undertake public service obligations.
- We will begin work on the legal reforms necessary to anchor the new ownership arrangements, corporate governance requirements and other measures outlined in the Ownership Policy, the SOE Blueprint and the SOE Strategy, assisted by Fund TA, with a view to submitting a draft GOE Bill and other necessary legal amendments to the National Assembly, once approved by Cabinet, by end-May 2024 ***(proposed SB).***
- We are in the process of undertaking a comprehensive assessment of the national government's continued involvement or investment in, or funding of, SCs and government-linked corporations (GLCs), starting with 50-100 SCs, based on selection criteria. To this effect, NT will prepare a report that will (i) include specific recommendations for privatization and/or divestment, as well as for mergers, liquidations or dissolutions, transfers to counties and reversions to government departments, (ii) identify and propose solutions for the main legal and operational challenges and bottlenecks to implement the recommendations, and (iii) establish a time-bound action plan for execution. The report will be published and submitted to the National Assembly by end-October 2024 (***SB***). We will continue to conduct, on a triennial basis, such assessments as mandated by Section 89(3) of the PFM Act.

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

46. Privatization Efforts. A need has arisen to have a privatization law that is more aligned to the 2010 Constitution of Kenya and other laws than the Privatization Act 2005. In this regard, the Privatization Bill 2023 has been enacted into law (Privatization Act, 2023) and the Privatization Act 2005, repealed. Under the Privatization Act 2023, it is expected that privatization processes will be streamlined and carried out more efficiently. The next five-year Privatization Program under the new law will be approved by Cabinet and submitted to the National Assembly by end-December 2023.

F. Monetary Policy

47. Policy objectives. Our primary policy objectives remain to: (i) maintain headline inflation within our target range (5±2.5 percent); (ii) maintain a flexible exchange rate regime; and (iii) further

improve the monetary policy framework. A monetary policy consultation clause (MPCC) with a 5 percent ±2.5 percent band helps monitor inflation performance, with a consultation with the IMF Executive Board to be triggered if inflation falls outside the band (TMU ¶24).

48. Our monetary policy stance has been tightened over the course of the past one and half years with the overall objective of maintaining price stability consistent with our inflation target. Headline inflation decelerated to 7.3 percent in July, declining within the target band for the first time since June 2022, and from a peak of 9.6 percent in October 2022, mainly owing to lower domestic food prices following the onset of the rains and by the easing of global food prices. Overall inflation declined further to 6.9 percent in October and to 6.8 percent in November 2023, but has remained sticky in the upper part of the inflation target band since July, largely on account of elevated energy prices. We have tightened monetary policy in six steps since May 2022 by increasing the Central Bank Rate (CBR) by 550 basis points cumulatively, of which in 2023 by 375 basis points. This has continued to contain second order effects arising from high energy prices. The non-food, non-fuel inflation has declined from a peak 4.4 percent in March 2023 to 3.3 percent in November 2023.

49. We remain committed to continue adjusting the monetary policy stance decisively as needed, in order to ensure that we keep inflationary expectations well anchored and in line with maintaining external sustainability. With agriculture recovering, the contribution from food prices to headline inflation is expected to decline but pressures from fuel prices are expected to remain in the near term. Overall, we expect inflation to largely remain within the target band but there are risks associated with international oil price shocks and the potential impact from the exchange rate passthrough. We remain committed to adjusting the monetary policy stance proactively to mitigate the second-round effects, including from global prices, exchange rate adjustments, and risks from any other future shocks, ensuring that inflation expectations are always well anchored. In addition to our inflation objectives, we will ensure that the monetary policy stance and central bank policy operations are mutually consistent at all times with policy package envisaged under the program to support confidence in macroeconomic stability, meeting government's financing needs, maintaining Kenya's external sustainability, and ensuring adequacy of FX reserves.

50. We will support a flexible exchange rate system to act as external shock absorber. To address the challenges of pricing and liquidity, the CBK issued the Kenya FX code in March 2023. The code is aligned to best practices adopted in leading jurisdictions and incorporates relevant elements of the Global FX Code. The leading principles include practices on Execution, Governance, and Risk Management and Compliance which foster a robust, fair, open, liquid and appropriately transparent market. This was complemented by concerted efforts to reactivate the interbank FX market. Two foreign exchange inter-dealer brokers are already active in the interbank FX market, supporting price discovery. The CBK holds regular engagements with market participants to increase transparency and receive feedback on market development initiatives, which also led to publishing of updates to previous banking circulars on inter-bank FX market conventions. The banks submitted a self-assessment of their current practice against the requirements of the FX code and have also

submitted their board approved implementation plans by June 30, 2023, with full compliance of the Kenya FX code expected by December 31, 2023. In July 2023, the CBK issued a statement of its own commitment to the Global FX code, in line with global best practice. We have, in close engagement with authorized foreign exchange dealers, enhanced the smooth operation of the wholesale inter-bank market by timely implementation of an electronic matching system and issuance of a related circular on December 11, 2023. The communication withdrew the circular setting the 20-cents indicative bid/offer spread in the interbank market and reaffirmed the market making obligation of banks to create an efficient market clearing exchange rate. The communication also outlined additional updates to the CBK circulars to align with current FX market practices (e.g., minimum lot sizes). As a result, market participants should buy and sell FX with their clients and among themselves at freely negotiated rates and adjust their quotes as necessary for prudent management of their FX risk within prudential limits. The CBK commits to maintaining adequate reserves consistent with program objectives and strengthening of Kenya's external buffers. These measures, supported by mutually consistent monetary, exchange rate, and fiscal policies, are essential to maintain competitiveness, support the interbank FX market, protect FX reserves, and ensure continued financial stability.

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

- Refining macroeconomic modeling and forecasting frameworks. The CBK has continued to strengthen the forecasting framework and information content of MPC surveys in line with the recommendations of the IMF AFRITAC East FPAS scoping mission. The CBK hosted IMF TA missions on Kenya's FPAS, mainly focusing on improvement of the quarterly projection model, refining business surveys, and developing a nowcasting framework. We will continue to review the analytical tools, including the strengthening of the forecast processes.
- During the MPC Meeting held on August 9, 2023, and in line with the reforms outlined in the above-mentioned white paper, the MPC adopted a new monetary policy implementation framework designed to enhance monetary policy transmission. The new framework is based on inflation targeting and introduces an interest rate corridor around the CBR set at ± 250 basis points. Consequently, monetary policy operations aim at ensuring the interbank rate, as an operating target, closely tracks the CBR.
- The effective operation of the interest rate corridor framework requires a well-functioning discount window facility which serves as a backup source of liquidity for the banking system. To improve access to the Discount Window, the MPC reduced the applicable interest rate from 600 basis points above CBR to 400 basis points above CBR. We will continue to refine the approach to converge with global best practices.
- Implementation of measures to improve the functioning of the interbank market including the implementation of a Centralized Securities Depository System (CSD), whose go-live date

was July 31, 2023. The DhowCSD system is a versatile market infrastructure that will improve monetary policy transmission and implementation and enhance operational efficiency in the domestic debt market, further promoting capital market growth, market deepening, expansion of digital access for broader financial inclusion, and positioning Kenya as the preferred financial hub in the region. The DhowCSD will help manage systemic risk, improve and automate operations by eliminating paper-based processes via Straight Through Processing (STP) and enhance liquidity distribution by enabling full transfer of collateral for repo transactions, among other features.

- To further improve the transmission of monetary policy to bank lending rates, we have completed the review of commercial banks' risk-based loan pricing models, to facilitate industry-wide implementation.
- Continuing to adapt and improve the communication of monetary policy decisions to make them more effective.

G. Financial Sector

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

53. The banking sector remains stable and resilient, although some risks are emerging. Helped by our proactive policies, credit to the private sector expanded at a broadly steady pace throughout the pandemic and accelerated with the economic recovery, though it has moderated recently with the tightening of financial conditions. Under the Credit Guarantee Scheme (CGS), launched in December 2020, to expand access to affordable financing to micro-, small, and medium-sized enterprises, (MSME), total loans extended stood at KSh.6 billion as September 2023. The ratio of gross non-performing loans (NPLs) to gross loans in the banking sector stood at 15 percent in September 2023 compared to 13.7 percent in September 2022. The outstanding restructured loans amount to about 7 percent of gross loans with about 90 percent of the restructured loans performing as per the restructured terms. Credit risk is expected to remain elevated in the short and medium term as the domestic and regional economies recover from recent shocks, and banks are also exposed to interest rate and FX risks from the rising interest rates and exchange rate depreciation pressures. Currently, CBK stress test focuses on credit risk, FX risks, and climate change risks emanating from drought shock. The results show banking sector resilience to major shocks from credit and climate change risks. The banking sector's current capital, liquidity and provisioning levels are adequate, and we continue to enforce compliance based on onsite and offsite surveillance reports.

54. We will continue to stress preservation of capital and liquidity buffers, and closely monitor FX exposures, to strengthen the resilience of the financial system. We remain

committed to enhanced surveillance while encouraging banks to strengthen their governance frameworks and business models, embark on mergers and acquisitions, and other capital strengthening efforts. We will continue the monitoring of FX loans, deposits, and on-and off-balance sheet exposures in the banking system, with a view to, identifying any potential liquidity risks and strengthening resilience and contingency policies should these risks materialize. We conducted FX liquidity stress tests and shared the results with the IMF. We received IMF TA in June 2023 to develop Internal Liquidity Adequacy Assessment Program (ILAAP) Guidelines. The guidelines we plan to issue will include currency differentiated Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as monitoring tools.

55. We are committed to strengthening our financial stability policy framework. To this end, we intend to request an IMF Financial Sector Stability Review (FSSR), to provide a diagnostic review of the key components of the financial sector, including regulation, supervision, safety nets, financial statistics (expected to start in May 2024). CBK will work to develop by end-June 2024 a macroprudential policy strategy covering existing powers and tools. To this end, we will request a dedicated TA from the IMF.

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

- Banking Sector Resilience. The need to build resilience and exploit emerging opportunities has led to increased consolidations and combinations among several players. Additionally, Kenyan banks have continued to expand regionally through acquisitions, including in the Democratic Republic of Congo, Rwanda, and Tanzania. Further, the microfinance banking sector has been undergoing transformation, with acquisitions that have mobilized additional capital that has enhanced the sustainability of the sector. The CBK will continue with the focus of building a resilient banking sector with strong business models and governance frameworks that will support Kenya's post-pandemic recovery.
- The Central Bank of Kenya (Amendment) Act, 2021 on Digital Credit Providers (DCPs). The Central Bank of Kenya (Amendment) Act, 2021, which became effective on December 23, 2021, empowered CBK to license, regulate and supervise digital credit providers (DCPs) to ensure a fair and non-discriminatory marketplace for access to credit. Subsequently, the CBK Digital Credit Providers Regulations, 2022, were issued and operationalized on March 18, 2022. Accordingly, unregulated DCPs were required to apply for a license from the CBK by September 17, 2022; or cease their operations. As of September 2023, 32 DCPs had been granted licenses.
- Greening Kenya's Banking Sector. In October 2021, to contribute towards our Nationally Determined Contribution (NDC), we issued Guidance on Climate-Related Risk Management to help banks better understand and manage climate-related risks, invest in climate-friendly activities, and mobilize finance for climate action. Capacity building workshops for banks' and CBK staff in risk management and compliance were conducted between February and

March 2022. At end-June 2022, all banks submitted Climate-Related Risk Management Implementation Plans focusing on strategy and governance, with plans to address climate risk management and disclosure components over the medium term. Banks have submitted quarterly progress reports since end-September 2022. As part of RSF-related reforms (completion date of April 7, 2024 (7th EFF/ECF Reviews), CBK is developing a draft green finance taxonomy adapted to Kenya's updated NDC, to be circulated for stakeholder consultation (see ¶67).

57. We have taken steps to strengthen AML/CFT risk-based supervision for banks. Using our AML/CFT offsite supervision tools, we have conducted sectoral and institutional risk assessments for all reporting institutions under the CBK to determine their ML/TF risk profiles. Results from the institutional risk assessments have been used to inform the development of risk-based AML/CFT onsite inspection plans for all institutions from June 2023 onwards. The CBK has fully separated its prudential and AML/CFT supervisory functions and completed ten stand-alone AML/CFT onsite inspections since January 2023. In addition, we have implemented a stand-alone AML/CFT supervision manual which will inform our risk-based approach to AML/CFT supervision. In view of the changes introduced by the AML/CFT (Amendment) Act 2023, the manual also includes a new enforcement strategy covering administrative sanctions, monetary penalties, and directives to undertake corrective actions. We will continue to implement measures to enhance the effectiveness of our AML/CFT risk-based supervision informed by the recommendations of the Kenya Mutual Evaluation Report 2022 and the findings of the updated National Risk Assessment.

H. Governance

58. Full and effective implementation of the access to information framework will be prioritized as a pillar for enhanced transparency and accountability. The Access to Information Regulations were republished in October 2023. They have since been resubmitted to Parliament, awaiting final approval before becoming effective. Approval is anticipated by April 2024. Moving forward, we will be vigilant in ensuring that MDA's, SCs and Counties are taking effective actions towards comprehensive operationalization of access to information. In this regard, we will develop with an initial focus on strategic areas like debt, budget, tax expenditures, PPPs, and procurement (i) a methodology to monitor implementation progress of access to information at the national and county levels, and (ii) information standards to guide proactive provision of information and processing information requests. In addition, we will focus on developing Standards for the Digitization and Automation of Records and work with county governments to advance legislative actions needed to give full force and effect to the access to information framework.

59. We continue to take measures to enhance transparency of beneficial ownership in public procurement. As of September 2023, 842 out of over 33,000 procuring entities had registered with the Public Procurement Information Portal (PPIP). The Public Procurement Regulatory Authority (PPRA) has issued two circulars in 2023 reminding procuring entities of their obligation to upload awarded contracts containing beneficial ownership information to the PPIP. We also continued to prepare quarterly compliance reports on the status of compliance by reporting

entities and configured the PPIP to require the capturing of beneficial ownership information before the publication of a contract. As a result, as of November 2023 a total of 13,003 contracts worth Ksh.355 billion have beneficial ownership information published through the PPIP, marking a significant increase from the previous quarter. To continue supporting this upward trend, PPRA has been conducting 13 trainings for 569 procuring entity users in 2023 to further improve their understanding of beneficial ownership disclosure obligations and the PPIP. We have also developed a training calendar to make our training resources available to a wider range of procuring entities. With these measures, we expect compliance to improve further as we approach the end of FY2023/24 by the end of June 2024.

60. We will prioritize continuous enhancement of our monitoring and data analysis capabilities of procurement-related information, including identification of red flags and corruption-related trends and risks. This will be supported by the development of a central repository of data on public procurement, mandated under the Public Procurement and Asset Disposal Act, 2015 (section 9-1-m), and facilitated by the planned rollout of e-procurement and its integration with the PPIP and other government databases, such as IFMIS (¶22). In addition, the PPRA will coordinate with and provide continuous training to procuring entities, law enforcement agencies and other relevant stakeholders, to facilitate data sharing and develop functionalities tailored to their specific information and analysis needs, including generation of relevant reports.

61. Convinced that ensuring timely action to address audit findings and recommendations is a critical element in the state's accountability framework, we will take steps to enhance follow up and implementation of the Auditor-General's audit findings and recommendations, including from the completed audits of COVID-19 spending. The efficacy of these audits rest largely on sound legal frameworks, efficient institutional arrangements and robust transparency requirements geared towards effective implementation of audit recommendations. To that end, we will explore measures to (i) promote greater coordination and collaboration among state institutions involved in the overall audit and accountability cycle, including law enforcement agencies (ii) strengthen follow up and implementation systems and consolidate monitoring capabilities and structures, including integrating them with social accountability and participatory frameworks, and (iii) enhance public reporting in this area, including publishing a summary of NT's Internal Auditor-General Department's annual reports. In addition, we will enhance coordination during the Parliamentary review process of audit reports in order to strengthen follow up and implementation of Parliamentary recommendations.

62. We have finalized the review process to align our asset declarations and conflict of interest legal framework with international standards and best practices. A draft Conflict of Interest Bill was approved by Cabinet and was submitted to Parliament in March 2023. While we acknowledge the delay in bringing this important bill to Parliament, if enacted in its current form, the Conflict-of-Interest Bill would require high-level officials to (i) file information regarding disclosure of interests (including financial, contractual and corporate) and assets beneficially owned, (ii) online publication of declarations of assets, including assets beneficially owned, and conflict of interest — except confidential data for personal and family safety and privacy reasons (e.g., account

numbers, personal identification numbers), and (iii) dissuasive sanctions to prevent noncompliance, including filing of inaccurate information. Going forward, we will work to achieve full automation of asset declarations for all public officials.

63. From 2018 to 2023, the Ethics and Anti-Corruption Commission (EACC) achieved significant progress in asset recovery. The EACC's accomplishments include: (i) Recovery of assets, both movable and immovable, valued at roughly Ksh.23.74 billion (US$200 million); (ii) Efforts to forfeit corruptly acquired assets worth about Ksh.40.78 billion (US$350 million), currently in litigation across Kenyan courts; (iii) Completion of 33 investigations into illegally acquired and unexplained wealth in the last fiscal year; (iv) Initiation of 24 civil recovery lawsuits targeting assets worth Ksh.7.78 billion (US$60 million); (v) Asset recovery of approximately Ksh.940 million (US$8 million) through legal and alternative dispute resolution channels. We recognize that the EACC faces challenges in connection with cross-border cases, so we are examining ways in which we can strengthen the Mutual Legal Assistance and broader International Cooperation frameworks within which the EACC operates. We will also consider ways of strengthening the EACC's team to function effectively within the existing MLA and IC frameworks.

64. We are also making progress in strengthening the Judiciary's capacities to efficiently adjudicate corruption-related criminal cases. In October 2022, 127 special magistrates with mixed jurisdiction were appointed to oversee corruption and economic crimes cases at the lower level to address backlog, and appropriate training remains a top priority. The Anti-corruption and Economic Crimes Division is a specialized court within the High Court that handles corruption-related cases. Delays in court cases are being addressed through the applicable Court Users Committee and Bar Bench. though we acknowledge that more High Court judges need to be appointed for cases in this jurisdiction to be more effectively managed. While we are still experiencing considerable shortages in digital equipment and infrastructure, we have been working towards putting in place video conference and filming capabilities in courtrooms.

65. We will provide proper accountability and transparency on the supplementary budget spending by the various MDAs with a view to ensure greater consistency between expenditure plans and outcomes for the year. We facilitated the Auditor-General with the necessary support and access to all the relevant records for the requisitions (demand) and disbursements (supply) to conduct a special audit on the mechanism, efficiency, and effectiveness of the supplementary budgeting, including under Article 223 of the Constitution, to establish trends and potential risks. The audit was completed in November and the report was published in December **(*end-September 2023 SB*)**.

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

- Strengthening the AML/CFT legal framework in line with FATF standards. Under coordination by a multi-stakeholder working group led by FRC, the AML/CFT (Amendment) Act 2023 has entered into force in September 2023. The Act revises 17 pieces of legislation to address shortcomings identified in ESAAMLG's 2022 Mutual Evaluation Report, including broadening

the powers of AML/CFT supervisors and introducing beneficial ownership-related obligations and TF preventive measures. To give effect to the legal revisions, we have gazetted several new implementing regulations in October 2023, including the Proceeds of Crime and Anti-Money Laundering Regulations (POCAMLR), the Prevention of Terrorism (Implementation of the United Nations Security Council Resolutions on Prevention and Suppression of Terrorism) Regulations, and POCAML (Criminal Assets Recovery Fund) Regulations. We also published CFT/CPF-related regulations in November 2023.

- Strengthening beneficial ownership transparency of companies and other legal persons**.** Since the electronic register (e-register) went live in October 2020, Kenya Business Registration Services (BRS) has continued to ensure existing companies submit their beneficial ownership information to the e-register. As of end-September 2023, the BRS' efforts to increase submissions have resulted in a 44.6 percent compliance rate. Existing companies are expected to be fully compliant by end-June 2024. BRS will conduct further outreach activities in 2023Q4 to remind companies of their compliance obligations. Following the outreach activities, BRS will begin to strike off non-compliant companies from the register and prevent companies from accessing any BRS online services until the submission requirements are met. To this end, the AML/CFT (Amendment) Act 2023 provides BRS with additional administrative sanctioning and strike-off powers. BRS has finalized amendments to the Companies Beneficial Ownership Regulations and has drafted new Limited Liability Partnerships (Beneficial Ownership Information) Regulations. Both were gazetted in October 2023 to address legal gaps identified in Kenya's Mutual Evaluation Report. The envisaged amendments will in part provide access to beneficial ownership information for AML/CFT reporting institutions and their regulators.
- Addressing key deficiencies in the AML/CFT framework to strengthen stakeholders' understanding and capacities. We have almost fully completed all 16 items of our high-level action plan to address deficiencies highlighted in the 2022 MER. We conducted five sectoral ML/TF risk assessments and are aiming to complete the updating of our NRA before end-December 2023. We are also strengthening AML/CFT risk-based supervision. To that end, we revised our supervision manuals to introduce a risk-based approach and all AML/CFT supervisors started to undertake stand-alone AML/CFT supervision. The FRC commenced inspections of casinos and real estate agents and started a registration drive to increase registrations of DNFBPs. We developed tools to strengthen parallel financial investigations and exchange of financial intelligence and are awaiting confirmation to join the Egmont Group of Financial Intelligence Units in Q1 2024. We have continued to conduct AML/CFT capacity building initiatives for competent authorities and reporting institutions on MER and NRA deficiencies and will conduct additional trainings on the findings of the concluded sectoral risk assessments.

I. Building Resilience to Climate Change

67. We are making good progress with RSF-supported reforms. Ahead of the first review, under Reform Priority 4: Strengthening disaster risk reduction and management, we were targeting

completion of one RM – adoption of a National Framework for Climate Services (RM1). This work has been done, with Cabinet recently approving the cabinet memorandum, thereby adopting the framework that will strengthen collaboration among regional and national institutions to improve production and use of climate information services. Kenya is the first country within the IGAD region[3] recognized by the World Meteorological organization (WMO) that has adopted the framework and put in place an implementation roadmap. As a result, three IGDA member states and Sierra Leone have requested technical assistance from Kenya.

68. Our climate reform agenda will strengthen our fiscal reporting and PFM management systems. We are making good progress in this space but will require technical assistance from our development partners to enable us to accelerate the reforms. To include long-term climate scenarios in our fiscal risk statement (RM2) we have requested timely assistance from the IMF and will publish the results in FY2024/25. Similarly, integration of climate change and disaster risk methodology in project appraisal (RM5) is on track but will require additional technical assistance. The development of Kenya's Green Growth Index (GGI) and Sovereign Green Bond Framework has been completed. Already climate sensitive expenditures have been tagged for climate budgeting (RM8) and will be supported by the ongoing work on the green taxonomy and green infrastructure reforms.

69. Reform of the electricity sector can support green growth and bring down electricity costs over time. Our efforts to approve net metering and open access regulations (RM7) are well advanced. We have circulated draft net metering regulations for public consultation with the aim of gazetting the regulations by early 2024. To facilitate open access in the electricity market, we have developed draft regulations with assistance from the World Bank. After completion of a Regulatory Impact Assessment, the regulations will be ready for adoption. Both interventions will support Kenya's climate resilience.

70. New green incentives will support revenue mobilization and strengthen efficiency. Progress towards adoption of green fiscal incentives in agriculture, water, and land management sectors (RM6) is ahead of schedule. The National Green Fiscal Policy Incentives Framework (NGFPF), which should be adopted before the end of the year, sets out options for promoting low-carbon, climate resilient, and environmentally sustainable practices. Payment for ecosystems services, enhanced nature-based solutions, strengthened capacity of the climate finance and green economy unit, and enhanced climate finance mobilization through innovative financing mechanisms are in place. Work on carbon pricing and taxes, subsidies, ecological fiscal transfers (biodiversity credits), research grants, development of a national debt-for-climate and nature swaps framework and concessional loans is progressing well. Given the complexity of green taxes, we anticipate that implementation of carbon pricing in line with IMF recommendations (RM3) could take longer than originally envisaged. The World Bank will assist us with considering reform options for recycling proceeds from carbon taxes towards social protection, bio-diversity/ecosystems protection,

[3] The Intergovernmental Authority on Development (IGAD) is a body of eight member states: Djibouti, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda (Eritrea is currently inactive), and is based in Djibouti.

landscape restoration, financing adaptation action under the Financing Locally Led Climate Action (FLLoCA), resilience building, and climate proofing of our assets.

71. We are taking steps to enhance the management of climate risks for financial institutions. As a first step towards developing a green finance taxonomy (GIFT) for Kenya (RM4) and issuing guidelines for climate-related disclosures in the banking sector (RM9), the CBK has completed a review of international experiences and approaches. We are working closely with the European Investment Bank (EIB) to complete a diagnostic review of the Kenyan financial system's existing green taxonomy and disclosures by end-June 2024. As part of this work, we have started initial consultations with commercial banks.

72. Our climate adaptation efforts will empower Kenyans at the community level. The Financing Locally Led Climate Action (FLLoCA) Program primarily targets local communities and puts them in control of climate adaptation choices, marking a significant departure from traditional top-down reforms. Pooled resources from national departments, county governments, and development partners—the World Bank, KfW Development Bank, and governments of Denmark, Sweden, and the Netherlands—are being channeled directly to counties in the form of performance-based PforR conditional transfers (County Climate Institutional Support (CCIS) and County Climate Resilience Investment (CCRI). Typical activities under this program include agricultural adaptation, community-led water management, natural resource management, catalyzing investments in new local green enterprises, and disaster risk management. These are achieved through: developing and strengthening policy, legal and regulatory reforms at national and county levels, strengthening capacities of national and county level institutions to accelerate climate financing, increased access to climate finance, support to community-led initiatives, green technology diffusion, enhanced transparency and accountability, and prediction, preparation and prevention of climate-related emergencies, shocks and disasters.

J. Other Initiatives

73. As an interim measure to help ease FX pressures, we introduced a new oil import arrangement in April 2023. It replaced the previous open tendering system, under which oil import dues were payable upon five days of delivery, often creating undue FX market pressures. The new arrangement, based on a master framework agreed between Kenya and three national oil exporters from the Gulf, provides for six-month credit for oil imports, backed by letters of credit issued by participating commercial banks. In the first 6 months, the actual average monthly import volumes fell short of the monthly minimums agreed under the arrangement. This was due to lower demand from our domestic market as well as from the regional reexports markets. The initial agreement was extended for another twelve months to December 2024 with more favorable costing terms. The extension of the arrangement reduces the risk of materialization of contingent liabilities due to shortfall in the actual imports. The government intends to exit the oil import arrangement, as we are cognizant of the distortions it has created in the FX market, the accompanying increase in rollover risk of the private sector financing facilities supporting it and remain committed to private market solutions in the energy market. We commit that all FX conversions done as part of the oil scheme

will be done at market rates. We will also amend regulations on the fuel pricing formula to specify passthrough of the exchange rate risk component and any other risks that may materialize.

K. Data Quality

74. Policy objectives. We view the production and dissemination of high-quality economic statistics as the foundation for evidence-based decision making for good policy formulation, monitoring and evaluation. To this end, we will continue to improve on the availability, quality, coverage, and timeliness of our statistics.

75. Data coverage, quality, and timeliness. We have enhanced macroeconomic statistics with a range of new statistical censuses and sample surveys, including the Integrated Survey of Services, Study of Trade Margins, Study of Underground Economy, Study of Informal Transportation, Micro, Small and Medium Enterprises Survey, Survey of Non-Profit Institutions, and the 2020 Census of Commercial Farms and Green Houses. In September 2021, we released national accounts statistics updated to a base period of 2016 and in May 2023, we launched our inaugural release of Kenya's International Investment Position for the period of 2015 to 2021. We are preparing to undertake the next Household Expenditure Survey, which was delayed due to COVID-19. We are currently working on reassembling the interdepartmental committee on Government Finance Statistics (GFS). Our aim is to revitalize and enhance the committee's capabilities. These actions, although delayed due to capacity constraints, are expected to lead to the reporting of (i) general government fiscal outturns on a quarterly basis by February 2024; (ii) annual fiscal data of the public corporations' sector (including financial and non-financial corporations) by February 2024; and (iii) migration of the fiscal framework to GFSM 2014 based concepts, starting with the QEBR for fourth quarter of FY2022/23; and (iv) review the GFS Public Sector Institutional Table by end-February 2024 to refine in it the list of extra-budgetary units with a view to expand coverage of quarterly statistics to central government by end-March 2024. These actions will improve transparency and ensure that all stakeholders have easy and reliable access to information. Additionally, the CBK introduced a new survey of agriculture sector in July 2022 aimed at generating high frequency agriculture sector data to support monetary policy decision process, and to complement the existing CEOs, market perception, and hotel industry surveys. We plan to reconcile BOP statistics to properly reflect oil reexports and related imports, and associated financing flows, including those contracted under the oil importation scheme.

L. Program Monitoring Under EFF/ECF and RSF

76. The EFF/ECF program will continue to be monitored based on periodic performance criteria, continuous performance criteria, Monetary Policy Consultation Clause, and indicative targets as set out in Table 1. Structural benchmarks for the EFF/ECF program are set out in Table 2 will be used for monitoring progress on structural reforms. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons. The seventh, eighth, and ninth reviews of the program will take place on or after May 7, 2024, and October 30, 2024, and March 15, 2025, respectively.

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

Table 1. Kenya: Quantitative Performance Criteria and Indicative Targets, 2023–24

(In billions of Kenyan Shillings, unless otherwise indicated)

	2023							2024		
	End Jun.				End Dec.			End Jun.		End Dec.
	4th Rev.	Adjusted	Outturn	Status	5th Rev.	Outturn	Status	5th Rev.	Proposed	Proposed
Quantitative performance criteria										
Fiscal targets										
Primary budget balance of the national government (- = deficit; floor)[1]	-158.0	-150.8	-83.0	Met	63.9	...	...	55.1	104.9	156.2
Tax revenue (floor)[1, 2]	2,035	2,035	1,887	Not met	1,058	...	...	2,428	2,428	1,288
Monetary targets										
Stock of central bank net international reserves (floor, in millions of US$)[3]	4,393	4,908	5,153	Met	3,575	...	...	3,375	2,422	2,377
Public debt targets										
Public and publicly-guaranteed external payment arrears (in millions of US$, ceiling)[4,5]	0	0	0	Met	0	0.51	Not Met	0	0	0
New domestic guarantees granted by the central government (ceiling)[1]	5	5	0	Met	5	...	...	5	5	5
PV of contracting or guaranteeing of new external debt (ceiling,in millions of US$)[6]	11,766	6,766	2,762	Met	13,340	...	...	14,471	14,471	15,101
Indicative targets										
Priority social expenditures of the national government (floor)[1]	421	421	441	Met	211	...	...	426	501	258
Change in the stock of national government exchequer requests outstanding for 90 days or more (ceiling)[1]	0	0	0	Met	0	...	...	0	0	0
Ceiling on non-accumulation of net domestic arrears (ceiling, on a cumulative basis within the fiscal year)[7]	...	....	....	...	0	...	...	0	0	0
Monetary policy consultation clause										
Upper band (annual, percentage points)	7.5	7.5			7.5	...	...	7.5	7.5	7.5
Center inflation target (annual, percentage points)[8]	5.0	5.0	7.9	Not met	5.0	...	...	5.0	5.0	5.0
Lower band (annual, percentage points)	2.5	2.5			2.5	...	...	2.5	2.5	2.5
Memorandum items for adjustors										
Programmed amount of new debt issuance for PV-reducing, debt management operations[9]	5,000	...	0	...	5,000	...	...	5,000	5,000	5,000
Memorandum items (other)										
Nominal value of contracting or guaranteeing of new external debt under new PV ceiling (in millions of US$)[9]	16,963	16,963	5,872	...	19,474	...		21,275	21,275	23,200

Note: For program performance prior to the June 2023 test date, please see IMF Country Report Nos. 2022/232, 2022/382, and 2023/266.

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

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

[3] For program monitoring, calculated as end of period. Excludes encumbered reserves.

[4] Continuous.

[5] Syndicated loans, amounting to EUR305.4 million claimed by a syndicate of Italian commercial banks in relation to Arror, Kimwarer, and Itare dams projects, are disputed and subject to on-going arbitration/court proceeding.

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

[7] Calculated since end-December 2022.

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

[9] Cumulative from program approval.

Table 2. Kenya: Current and Proposed Structural Benchmarks Under the EFF/ECF Arrangements

Measure	Target Date	Status	Macro-Criticality
State-Corporations (SCs) Restructuring and Governance			
Cabinet approval and publication of an Ownership Policy for SCs describing a new governance architecture and legal ecosystem to enable enhanced performance and transparency	End-October 2023	Not met, Implemented with delay	SOE governance
Cabinet approval of strategy options for restructuring Kenya Airways.	End-April 2024	Proposed	Reduce fiscal risks related to SOEs
Cabinet approval and publication of an updated inventory and a new classification of SCs that will apply across the government, in line with the National Treasury Strategy for Improving Financial Oversight at State Corporations document.	End-January 2024	Proposed	SOE governance
Submit to Parliament legal amendments to anchor the new SCs Ownership Policy and other SOE Blueprint measures in the law.	End-May 2024	Proposed	SOE governance
National Treasury (NT) to complete financial evaluation for fifty SCs, using their FY2022/23 audited accounts, to quantify fiscal risks emanating from SOEs and report the outcome to the Fiscal Risk Committee.	End-June 2024		Reduce fiscal risks related to SOEs
NT to submit to Parliament and publish a report comprising a comprehensive assessment of the national government's continued involvement or investment in, or funding of, SCs and government-linked corporations, that will (i) include specific recommendations for privatization and/or divestment, as well as for mergers, liquidations or dissolutions, transfers to counties and reversions to government departments, (ii) identify and propose solutions for the main legal and operational challenges and bottlenecks to implement the recommendations, and (iii) establish a time-bound action plan for execution.	End-October 2024		Reduce fiscal risks related to SOEs

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

Measure	Target Date	Status	Macro-Criticality
Budget and Revenue Collection			
Complete a review of how the fuel pricing mechanism has been applied to date; publicly announce and constitute a taskforce to oversee the progressive elimination of the fuel subsidy within the first half of FY2022/23 and to ensure that fuel pricing actions are at all times aligned to the approved budget.	End-August 2023	Not met, Implemented with delay	Provide clarity on fuel pricing policy and avoid unfunded subsidy costs.
NT to submit to Cabinet a comprehensive, timebound strategy to validate the stock of outstanding pending bills, address public financial management shortcomings that gave rise to pending bills, and clear the verified pending bills over the medium term consistent with the consolidation path under our program.	End-September 2023	Not met. Proposed to be reset to end-February 2024	Strengthen budget practices and address issues with outstanding arrears
NT to submit to Parliament a supplementary budget for FY2023/24 along with tax measures to safeguard achievement of the FY2023/24 deficit and revenue targets.	End-October 2023	Not met, Implemented with delay	Ensure fiscal consolidation consistent with program objectives.
Submit to Cabinet for approval the draft of the MTRS with an implementation plan and mechanisms to oversee its implementation	End-October 2023	Not met, Implemented with delay	Increase compliance and tax revenue
NT to strengthen the MTRS governance and process, including by establishing a Steering Committee at ministerial level.	End-February 2024	Proposed	Increase compliance and tax revenue
NT to release a report outlining procedures and rules for the clearance of pending bills and other government arrears.	End-February 2024	Proposed	Strengthen budget practices and address issues with outstanding arrears
NT and Ministry of Energy to perform and publish an assessment of the governance structure of the Petroleum Development Fund and recommend actions to strengthen its management.	End-March 2024	Proposed	Provide clarity on fuel pricing policy and avoid unfunded subsidy costs.
National Treasury (NT) to submit to Parliament a second Supplementary FY2023/24 Budget consistent with programmed deficit and revenue targets.	End-March 2024	Proposed	Ensure fiscal consolidation consistent with program objectives.
NT to submit to Parliament a budget and finance bill for FY2024/25 consistent with programmed deficit and revenue targets.	End-April 2024	Proposed	Ensure fiscal consolidation consistent with program objectives.

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

Measure	Target Date	Status	Macro-Criticality
Governance, Anti-Money Laundering, and Anti-Corruption			
Submit to the National Assembly, the draft amendments to the POCAMLA and POCAMLR, to be in line with FATF standards addressing the legal and regulatory gaps identified in the Kenya Mutual Evaluation Report 2022 to support anti-corruption efforts.	End-June 2023	Not met, implemented with a delay	Strengthen AML preventive tools to fight corruption.
Conduct and publish a special audit on the mechanism, efficiency and effectiveness of the supplementary budgeting, including under Article 223 of the Constitution, with a view to provide proper accountability and transparency on the supplementary budget spending by the various MDAs and to establish potential risks.	End-September 2023	Not met. Implemented with a delay	Reduce fiscal risks and strengthen budget controls.

[1/] The list of all previously assessed structural benchmarks is available in IMF Country Report Nos. 2021/275, 2022/232, 2022/382, and 2023/266.

Table 3. Kenya: RSF Reform Measures

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

1/ Implementation of RM3 could take longer than originally envisaged (MEFP¶69).

Attachment II. Technical Memorandum of Understanding

Nairobi, Kenya, December 21, 2023

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

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

3. The program establishes quantitative performance criteria for December 31, 2023; June 30, 2024; and December 31, 2024, with respect to:

- the primary balance of the national government including grants, cash basis (**floor**);
- tax revenue of the national government (**floor**);
- the stock of net official international reserves (NIR) of the Central Bank of Kenya (CBK) (**floor**);
- present value of contracting or guaranteeing of new external debt by the national government and the CBK (**ceiling**);[1]
- accumulation of public and publicly guaranteed external debt arrears (**continuous ceiling**);
- new domestic guarantees granted by the national government or assumption of state-owned enterprise (SOE) debt not reflected in the primary balance (**ceiling**); and
- a monetary policy consultation clause (**band**).

4. The program sets indicative targets for December 31, 2023; June 30, 2024; and December 31, 2024 with respect to:

- the change in the stock of national government exchequer requests outstanding for 90 days or more (**ceiling**);
- zero accumulation of national government's net domestic payment arrears on a cumulative basis within the fiscal year (**ceiling**), and
- priority social spending of the national government (**floor**).

[1] This unified ceiling replaces the separate ceilings on the nominal value of contracting and guaranteeing of new external concessional and non-concessional borrowing used in the 1st and 2nd ECF/EFF reviews, reflecting the reforms of the IMF Debt Limits Policy that entered into effect on June 30, 2021.

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

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

6. **For program purposes, the national government primary balance** on a cash basis will be measured from the financing side as the sum of the following: (a) the negative of net domestic financing of the national government; (b) the negative of net external financing of the national government; and (c) domestic and external interest payments of the national government. The national government primary balance will be measured cumulatively from the beginning of respective fiscal year until the test date: July 1, 2023, to December 31, 2023 (for end-December 2023 test date), from July 1, 2023 to June 30, 2024 (for end-June 2024 test date), and July 1, 2024 to December 31, 2024 (for end-December 2024 test date).

The above items are defined as follows:

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

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

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

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

8. The following **adjustors** will apply to the target for NIR (see Table 1 for details):

- If the total of (i) program loans, (ii) the revenue component of project loans, and (iii) external commercial and semi-concessional borrowing (excluding for payments of principal of existing debt with the proceeds from newly issued debt for debt management purposes (¶20) exceeds (falls short) the programmed amounts set out in TMU Table 1 below, the target for NIR will be adjusted upward (downward) by the difference;
- If program grants or the revenue component of project grants falls short of the programmed amounts set out in TMU Table 1, the target for NIR will be adjusted downward by the difference;
- If foreign exchange outflows related to financial support provided to Kenya Airways exceeds (falls short) the programmed amounts set out in TMU Table 1 below, the target for NIR will be adjusted downward (upward) by the difference;
- Downward adjustments (all measured cumulatively from end-June 2023) in the NIR floor will be capped at: US$325 million for the end-December 2023 test date, US$504 million for the end-June 2024 test date, and US$746 million for the end-December 2024 test date.

Table 1. Kenya: Projected Program and Project Loans, Grants, Commercial Borrowing, and Foreign Exchange Outflows Related to Budget Support to Kenya Airways[1]

(US$ millions)

	2023 End-Dec.	2024 End-Jun.	2024 End-Dec.
Program grants and loans (excl. IMF)	86	1,636	0
Program loans (excl. IMF)	86	1,636	0
Program grants	0	0	0
Project loans and grants	416	846	373
Project loans (revenue component)	357	756	321
Project grants (revenue component)	59	89	52
Commercial and Semi-concessional borrowing	0	500	0
Foreign exchange outflows related to KQ support	68	124	60

Source: Kenyan authorities; and IMF staff projections.

[1] Cumulative from July 1, 2023, for the end-December 2023 and end-June 2024 test dates, and cumulative from July 1, 2024 for the end-December 2024 test date.

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

Table 2. Kenya: Program Exchange Rates

(Rates as of February 4, 2021)

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

Source: Central Bank of Kenya.

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

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

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

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

Definition of Debt

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

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

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

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

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

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

Coverage of Debt

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

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

Contracting of Debt and Treatment of Credit Lines

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

Definition of Debt Ceiling

17. A performance criterion (ceiling) applies to the present value (PV) of new external debt contracted or guaranteed by the public sector. The ceiling applies also to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. Loan obligations between the GoK and the creditors of Kenya Airlines that (i) replace two guarantees previously provided by GoK to the same lenders; (ii) result in present value savings compared to the debt obligations that GoK would have had to assume had the two guarantees been triggered are excluded from the PC.[2]

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

Present Value Calculation

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

Debt Management Operations

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

Adjustors to Debt Ceiling

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

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

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

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

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

22. The debt ceiling will be adjusted downward by the full amount of: (1) any shortfall between the actual and programmed issuance of debt for use in DMOs, and (2) the issuance of any debts for use in DMOs that do not result in a reduction of the present value (present value savings) of the overall public external debt and an improvement of the overall public external debt service profile. In the calculation of the present value savings from DMOs, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 7 percent,[6] and these amounts will not be capped by the nominal value of the debt.

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

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

VII. MONETARY POLICY CONSULTATION CLAUSE

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

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

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

Table 3. Kenya: Monetary Policy Consultation Clause, 2023–24

(Percent values)

	end-Dec. 2023 Target	end-Jun. 2024 Target	End-Dec. 2024 Target
Upper band	7.5	7.5	7.5
Center point	5.0	5.0	5.0
Lower band	2.5	2.5	2.5

VIII. FLOOR ON THE TAX REVENUE OF NATIONAL GOVERNMENT

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

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

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

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

X. INDICATIVE TARGET ON CEILING OF NON-ACCUMULATION OF NET DOMESTIC PAYMENT ARREARS

28. For the purposes of the program, national government's domestic payment arrears are defined as the stock of pending bills of MDAs and SAGAs/SCs outstanding at end-June of each financial year (as reported in the National Government Budget Implementation Review Report from the Office of the Controller Budget) not inclusive of the national government exchequer requests (¶26) received in the IFIMIS system on and after April 1 of the same financial year (i.e., requests outstanding for less than 90 days at end-June). At end-December of each financial year, the stock of arrears is computed as the sum of the stock of pending bills as reported in the National Government Budget Implementation Review Report from the Office of the Controller Budget and exchequer requests from the current fiscal year outstanding for more than 90 days (TMU Table 4).

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

	FY2022/23	
	Dec.	Jun.
Total stock of arrears at MDAs and SCs	506.5	490.0
Memorandum:		
Pending bills at MDAs	*80.3*	123.9
Pending bills at SAGAs/SCs	*400.7*	443.6
Pending bills at counties	*159.9*	160.2
Exchequer requests outstanding for less than 90 days	*60.1*	77.5
Exchequer requests outstanding for more than 90 days	*25.5*	0.0

Source: Kenyan authorities

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

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

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

- cash transfers to orphans and vulnerable children,
- cash transfers to elderly persons,
- cash transfers to persons with severe disabilities,
- free primary education expenditure,
- free secondary education expenditure,
- school food and sanitary programs,
- free maternal healthcare,
- universal health coverage,

- health insurance subsidy for targeted categories (i.e., orphans, vulnerable children, elderly, and people with disabilities), and
- spending for vaccination and immunization.

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

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

	2023		2024	
	Jun.	Dec.	Jun.	Dec.
Priority social spending	420,777	210,979	500,630	257,824

Source: Kenyan authorities.

[1] Cumulative from July 1, 2022, for FY2022/23 ending in June 2023 and from July 1, 2023, for FY2023/24 for end-December 2023.

XII. DATA REPORTING

31. To monitor program performance, the National Treasury and the CBK will provide to the IMF the information at the frequency and within the reporting deadlines specified in TMU Table 6. The authorities will transmit promptly to Fund staff any data revisions. For any information (and data) that is (are) relevant for assessing performance against program objectives but is (are) not specifically defined in this memorandum, the authorities will consult with Fund staff. The authorities will transmit promptly to IMF staff any data revisions, as well as other information necessary to monitor the arrangements with the IMF.

Table 6. Kenya: Summary of Data to Be Reported

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

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

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

INTERNATIONAL MONETARY FUND

KENYA

December 22, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR AUGMENTATIONS OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, AND FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

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RELATIONS WITH THE FUND

(As of November 30, 2023)

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	542.80	100.00
IMF's Holdings of Currency (Holdings Rate)	1,510.27	278.24
Reserve Tranche Position	13.40	2.47

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	779.90	100.00
Holdings	360.36	46.21

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
RCF loans	542.80	100.00
ECF Arrangements	535.34	98.63
Extended Arrangements	980.84	180.70

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Apr 2, 2021	Apr 1, 2025	1,484.56	980.84
ECF	Apr 2, 2021	Apr 1, 2025	740.89	528.15
RSF	Jul 17, 2023	Mar 31, 2025	407.10	0.00

Outright Loans:

Type	Date of Arrangement	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	May 6, 2020	May 11, 2020	542.80	542.80

Overdue Obligations and Projected Payments to Fund[1] (SDR Million, based on existing use of resources and present holdings of SDRs): None overdue

	Projected Payments				
	2023	2024	2025	2026	2027
Principal	7.19	0.00	82.55	204.00	276.19
Charges/Interest		68.32	68.22	66.05	61.18
Total	**7.19**	**68.32**	**150.77**	**270.05**	**337.37**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI):

Not Applicable.

Implementation of Catastrophe Containment and Relief (CCR):

Not Applicable.

Safeguards Assessments:

An update safeguards assessment of the Central Bank of Kenya (CBK), which was completed in September 2019, found that the CBK has maintained sound external audit and financial reporting practices, and its Board has active oversight of operations. In addition, the CBK continues to maintain effective operational controls. The CBK has implemented most of the recommendations from the 2019 assessment. Draft amendments to the CBK Act, prepared in consultation with IMF, largely address safeguards recommendations and await submission to Parliament.

Exchange Rate Arrangement:

Kenya's currency is the Kenyan Shilling. Kenya's de jure exchange rate arrangement is free floating, and its de facto exchange rate arrangement is classified as crawl-like.

Kenya accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from June 30, 1994, and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions, other than restrictions notified to the Fund under Decision No. 144 (52/51).

Article IV Consultation:

The last Article IV consultation with Kenya concluded on December 17, 2021. Kenya is currently on a 24–month Article IV cycle.

Technical Assistance:

Technical assistance activities provided to Kenya since 2022 are listed on the next page.

Resident Representative:

Mr. Selim Cakir — Since July 2023.

Kenya: Technical Assistance, 2022–23	
	Year of Delivery
Fiscal Affairs Department (FAD)	
Develop Capacity in Data Analytics	2023
MTRS – Review Progress	2023
Governance	2023
Fiscal Reporting	2023
Climate Diagnostics	2023
Managing natural resource wealth: Skills development Plan and Progress of reforms	2023
Expand fiscal statistics	2023
Workshop for preparation of MTRS	2023
AFRITAC East: Implementing the Budget Preparation Manual	2023
AFRITAC East: Budget Preparation Manual	2022
AFRITAC East: Operationalizing the Fiscal Risk Committee	2022
AFRITAC East: Budget preparation Manual	2022
AFRITAC East: Migrating to accrual IPSAS and review of Consolidated Financial Statements	2022
AFRITAC East: Developing a strategy for SOE oversight at the NT	2022
AFRITAC East: SOE Financial Evaluations (Workshop)	2022
AFRITAC East: Coordinated Border Management	2022
AFRITAC East: Developing EI Compliance Improvement Plan	2022
AFRITAC East: Desk Review of the draft SCOA	2022
Monetary and Capital Markets Department (MCM)	
Finalization of FMI self-assessment and review of oversight framework	2023
Refining the quarterly projection model	2023
Refining the Business Surveys and Nowcasting Framework at the CBK	2023
AFRITAC East: Basel III liquidity standards and leverage ratio	2023
Statistics Department (STA)	
Government Finance Statistics	2023
AFRITAC East: Kenya-TA-PPI- Further development of XMPI	2023
AFRITAC East: National Accounts training of new staff	2023
AFRITAC East: NAC - Institutional Sectors	2023

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Kenya and the World Bank:

https://www.worldbank.org/en/country/kenya.

World Bank Projects:

https://projects.worldbank.org/en/projects-operations/projects-summary?lang=en&searchTerm=&countrycode_exact=KE.

Kenya and the African Development Bank:

https://www.afdb.org/en/countries/east-africa/kenya.

STATISTICAL ISSUES

(As of November 30, 2023):

I. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance and program monitoring, but it has some shortcomings because of capacity constraints. Although the overall quality, timeliness and coverage of macroeconomic statistics have improved over the past few years, further improvements in the methodology of compiling real, fiscal, and external sector statistics would be desirable to facilitate enhanced design and monitoring of economic policies.

National Accounts: The Kenya National Bureau of Statistics (KNBS) has made significant efforts to enhance national statistics compilation. The GDP statistics released in September 2021, were rebased to 2016 from the previous 2009. The main objectives of rebasing to 2016 was to implement more recommendations of the 2008 System of National Accounts (2008 SNA) and to incorporate new data that became available since the 2009 revision.

The revision process was done with technical support from the East AFRITAC and Statistics Sweden, which was also used for benchmarking. The revised and rebased data were also peer reviewed by the International Monetary Fund (IMF). The revised national accounts are based on International Standard Industrial Classification of All Economic Activities Revision 4 (ISIC Rev 4).

To improve on the benchmark estimates, KNBS conducted several surveys/censuses which included: the 2015/2016 Kenya Integrated Household Budget Survey (KIHBS), Integrated Survey of Services (ISS) 2017, the Census of Industrial Production (CIP) 2016 and 2017, survey of non-profit institutions serving households (NPISH 2019), the survey of informal transportation and other personal services, the 2016 micro, small and medium enterprise survey (MSMES) and the 2016 Census of Establishments (COE 2016), Income tax data, the 2016 informal cross border trade (ICBT) and the 2019 Kenya Population and Housing Census (KPHC). The ICBT data was used to adjust the customs data.

Routine data available for annual GDP compilation included: monthly survey of industrial production (MSIP), monthly survey of hotels, annual labor enumeration survey and data from administrative sources. The data from administrative sources comprised, government accounts, customs records, income tax and value added tax (VAT) returns from the KRA. Other administrative sources were ministry of agriculture, livestock, fisheries and cooperatives (MOA), ministry of environment and forestry, ministry of mining and petroleum, Insurance Regulatory Authority, Central Bank of Kenya and Kenya Ports Authority.

The KNBS also compiled Supply and Use Tables (SUT) as part of the revision and rebasing of GDP. The SUT will inform the national accounts estimates until the next revision. The SUT methodology provided for more comprehensive coverage of economic activities and a more robust quality assurance approach through balancing of the supply and use of products. This also provided benchmark estimates for the base year (2016).

Price Statistics: The Consumer Price Index (CPI) for Kenya is compiled using weights derived from the 2015/16 Kenya Integrated Household Budget Survey (KIHBS) updated from the 2005/06 KIHBS to reflect the changing household consumption patterns. Consequently, the base year has been updated to February 2019, from February 2009.

Government Finance Statistics (GFS): East AFRITAC (AFE) collaborates closely with the EAC Secretariat through a capacity building program to support efforts to improve compilation and dissemination of government finance statistics (GFS) and Public-Sector Debt Statistics (PSDS) based on the Government Finance Statistics Manual 2014 (GFSM 2014) to achieve the fiscal data requirements associated with the East African Monetary Union (EAMU) Protocol. A series of AFE GFS and PSDS TA missions are taking place to further support efforts to improve fiscal data.

While GFS is reported at General Government (GG) level, future work will aim to reduce discrepancies (including strengthening coordination among and ensuring consistent use of macroeconomic assumption across data producing units), improve stock data, and the quality of GG data. The authorities committed to compiling and disseminating high-frequency GG data. Process of extending coverage to public corporations is in initial stages. Quarterly Public-Sector Debt is disseminated for certain instruments (mainly loans and debt securities) of Budgetary Central Government, but data is reported at face value and not nominal value.

Monetary and Financial Statistics: Monetary and financial statistics are compiled broadly in line with the *Monetary and Financial Statistics Manual*. The CBK reports monetary and financial statistics monthly, using Standardized Report Forms (SRFs) for the central bank and other depository corporations (ODCs), and monetary data based on these SRFs are published in the *International Financial Statistics*. The CBK has recently made progress: in expanding the coverage of ODCs data to include savings and credit cooperatives (SACCOs) and microfinance banks; and in developing other financial corporations (OFCs) data which comprises insurance corporations and pension funds—expanded ODC has already been reviewed and currently been submitted on a monthly basis while the insurance and pension funds data are still currently undergoing STA's review.

The CBK reports data on some key indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: Kenya does not participate in the IMF's Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS). The CBK reports Financial Soundness Indicators (FSIs) on a quarterly basis which include 11 core and 11 encouraged indicatorsfor deposit takers. Data on the household debt to gross domestic product ratio is also reported.

However, FSIs on other financial corporations and nonfinancial corporations are not reported.

External Sector Statistics: The KNBS compiles annual balance of payments statistics on BPM6 basis in Kenyan shillings that are regularly reported to STA, while the Central Bank of Kenya (CBK) compile monthly balance of payments statistics in U.S. dollars, which are reported to AFR and used for programming and surveillance purposes. The two datasets are harmonized on a quarterly basis.

Further, the CBK reports international reserves data with monthly frequency to STA and the National Treasury reports quarterly external debt statistics to the World Bank.

The overall quality of trade data is reasonably good, as it comprehensively captures formal trade based on customs statistics. There are adjustments on coverage to include informal trade and trade in electricity. Trade data currently excludes reexported oil and corresponding oil import portion, but the authorities are expected to undertake a data reconciliation to address this. Data on trade in services is weak because of the reliance on International Transactions Reporting System (ITRS), which suffers from a large and growing element of unclassified inflows and outflows that might include settlements of other current account transactions. The KNBS and the CBK have improved data coverage on

financial account, relying mainly on various data sources including the budget out turn for the government sector, the annual Foreign Investment Survey (FIS) for financial and non-financial corporations and the Monetary Statistics specifically the 1SR for the central bank, 2 SR for the depository corporations. However, estimates for household sector cross-border transactions still rely on the ITRS data.

The last two TA missions on ESS (October 7–18, 2019 and May 24–June 4, 2021) assisted the KNBS and CBK in developing a preliminary IIP statement consistent with the balance of payments. The authorities have gone further to make improvements on the IIP Statement, by including reliable source data, eliminating double counting and inconsistencies between the transactions in the financial account of the BOP and related positions in the IIP. In May 2023, the authorities published a revised IIP statement covering 2015–21. Data on FIS is disaggregated by sector and therefore only used to capture nonfinancial corporations and only specific areas for the depository corporations.

II. Data Standards and Quality

Kenya participates in the Enhanced General Data Dissemination System and disseminates data on the National Summary Data Page (NSDP). Timeliness needs to be improved.

III. Reporting to STA

The data for the General Government is reported to STA in *GFSM 2014* format and disseminated in the *GFS Yearbook*. Monthly and quarterly GFS data are regularly reported for inclusion in the *International Financial Statistics (IFS)*. Monetary data for the central bank and ODCs are regularly reported for inclusion in the *IFS*. Annual balance of payments data, following *BPM6* classifications, are regularly reported to STA.

The data for the General Government is reported to STA in *GFSM 2014* format and disseminated in the *GFS Yearbook*. Monthly and quarterly GFS data are regularly reported for inclusion in the *International Financial Statistics (IFS)*. Monetary data for the central bank and ODCs are regularly reported for inclusion in the *IFS*. Annual balance of payments data, following *BPM6* classifications, are regularly reported to STA.

Table 1. Kenya: Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication
Exchange Rate	11/30/2023	11/30/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/2023	11/30/2023	M	M	M
Reserve/Base Money	10/31/2023	11/30/2023	D/M	M	M
Broad Money	10/31/2023	11/30/2023	M	M	M
Central Bank Balance Sheet	10/31/2023	11/30/2023	M	M	M
Consolidated Balance Sheet of the Banking System	9/30/2023	10/30/2023	A	A	A
Interest Rates[2]	11/30/2023	11/30/2023	D	D	NA
Consumer Price Index	11/30/2023	11/30/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	9/30/2023	10/23/2023	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	9/30/2023	10/30/2023	A	A	NA
External Current Account Balance	9/30/2023	11/6/2023	M	M	NA
Exports and Imports of Goods and Services	9/30/2023	11/6/2023	M	M	M
GDP/GNP	12/31/2022(A) 6/30/2023(Q)	5/3/2023 10/5/2023	Q/A	Q/A	Q/A
Gross External Debt	5/31/2023	7/30/2023	M	M	M
International Investment Position	12/31/2021	5/3/2023	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[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 non-bank 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).

INTERNATIONAL MONETARY FUND

KENYA

December 22, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR AUGMENTATIONS OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, AND FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By:
Catherine Pattillo (IMF, AFR); Eugenio Cerutti (IMF, SPR); and Manuela Francisco and Hassan Zaman (IDA)

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

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

Kenya's public debt is assessed to be sustainable, reflecting the authorities' continued policy actions and expected robust export growth in the medium term. The overall and external ratings for risk of debt distress remain high.[1] *High fiscal deficits in the past and pandemic-related export and output losses in 2020 had resulted in deterioration of solvency and liquidity debt indicators. Market pressures since the start of the war in Ukraine and the monetary tightening in advanced countries have limited access to commercial borrowing. Compared to the last DSA assessment,*[2] *the projections of debt burden metrics have been revised up, reflecting projected REER depreciation in 2023–2024 to support the needed external adjustment in the presence of balance of payments pressures, increased access to*

[1] The DSA analysis reflects a debt carrying capacity of Medium considering Kenya's Composite Indicator Index of 3.01, based on the IMF's October 2023 *World Economic Outlook* and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

[2] See IMF Country Report No 2023/266 published in July 2023.

program financing, and higher projected interest expenses. Kenya is facing liquidity challenge in rolling over the June 2024 Eurobond in the context of unfavorable external conditions limiting access to international bond market for the frontier economies. Going forward, Kenya's debt indicators are forecasted to improve, a stronger fiscal effort during the program helps turn the primary balance into a surplus, albeit gradually for the external debt service-to-exports ratio. The DSA suggests that Kenya is susceptible to export, exchange rate, and primary balance shocks; more prolonged and protracted shocks to the economy would also present downside risks to the debt outlook. A natural disaster shock illustrates the very limited scope for meeting additional financing needs in a stress scenario without jeopardizing debt sustainability, underscoring the importance of putting in place the necessary regulatory framework to tap private sector solutions and enable access to concessional green financing.

PUBLIC DEBT COVERAGE

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

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

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

- 3.1 percent of GDP to capture reported non-guaranteed debt of state-owned enterprises (SOEs) and extra-budgetary units and Public Private Partnerships (PPPs):
  - With the view of establishing a comprehensive picture of non-guaranteed debt (excluding intergovernmental obligations) of public entities outside the central government, the National Treasury carried out a survey of state corporations in June 2023.[5] Survey results showed that 25 of them had non-guaranteed loan obligations (excluding vis-à-vis the government), including overdrafts, equal to Ksh.111.8 billion (0.8 percent of GDP) as of end-June 2023. Out of this sum, about 85 percent was foreign currency denominated. The National Treasury has since operationalized the new Government Investment Management Information System (GIMIS) module, which allows for digital data submission and processing of data by State-owned entities, which will be used for regular updates of the data going forward. Taking a conservative approach, the

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

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

[5] The authorities' efforts in this area were supported by a Policy and Performance Action (PPA) under the IDA Sustainable Development Finance Policy (SDFP).

standard calibration of 2 percent for non-guaranteed SOE debt is retained in the stress test.[6]

- The calibration of the exposure to PPP-related contingent liabilities is the default one, set at 35 percent of the country's PPP capital stock shock, as reported in the World Bank Database on PPPs.

- 0.5 percent of GDP to cover legacy debt of the pre-devolution county governments (see above).
- 0.4 percent of GDP to account for government contingent liabilities stemming from letters of support issued to participants in the government-to-government mechanism for importation of fuel products launched in April 2023.[7] Review of the legal arrangements of the new mechanism by the Attorney General of Kenya and IMF staff have established that they do not give rise to government guarantees of private debt under domestic law as defined in the Technical Memorandum of Understanding under the IMF-supported EFF/ECF arrangements. The government is, nevertheless, exposed to calls on the national budget in case prices at the pump are not adjusted to fully passthrough any FX valuation losses under the mechanism to final consumers. It may further have to raise U.S. dollar financing to cover any shortfalls of FX, needed to repay exporters, in the domestic market.
- 5 percent of GDP for a financial market shock—a value that exceeds the existing stock of financial sector nonperforming loans of about 4 percent of GDP.

3. **Kenya maintains a high standard of debt transparency.** Debt statistics bulletins with public and publicly guaranteed (PPG) coverage and medium-term debt management strategies are regularly published, and the Budget Policy Statement and Annual Public Debt Management Report (PDMR) include information about contingent liabilities. Moreover, the External Public Debt Register provides loan-level information about contracted and drawn amounts, interest rate, and currency denomination.

BACKGROUND ON DEBT

4. **Kenya's overall public debt has increased in recent years.** Gross public debt increased from 45.7 percent of GDP at end-2015 to 67.9 percent of GDP at end-2022 (Table 1), reflecting legacy high deficits, partly driven by debt-financed spending on large infrastructure projects, and in

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

[7] The scheme, which has an initial duration of nine months and extended for another 12 months to end-2024, includes the issuance of letters of support by the government to domestic oil marketing companies (OMCs) that also benefit the banks, financial institutions, credit insurance providers, lenders and any hedging counterparties providing financing, insurance, refinancing or hedging to the OMC. The fuel is imported on 6-month credit, backed by commercial letters of credit (LOCs) issued by domestic banks and confirmed by international banks. A reasonable estimate of the government contingent liabilities stemming from the new fuel import scheme is around 10 percent of the maximum private sector obligation to fuel exporters or around US$ 400 million (0.4 percent of GDP).

2020–21 by the impact of the COVID-19 global shock. External public debt amounts to about half of Kenya's overall public debt (Text Table 2).

Text Table 1. Kenya: Public Debt Coverage

Public Debt Coverage

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

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

Public debt coverage and the magnitude of the contingent liability tailored stress test

		Default	Used for the analysis
1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt	
		Default	Used for the analysis
2	Other elements of the general government not captured in 1.	0.9 percent of GDP	0.9
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2
4	PPP	35 percent of PPP stock	1.1
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5
	Total (2+3+4+5) (in percent of GDP)		9.0

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

5. **Most of Kenya's external public debt remains on concessional terms.** Nominal PPG external debt at end-2022 amounted to 34.5 percent of GDP, corresponding to 29 percent of GDP in present value terms (Text Table 2 and Table 1):

- Kenya has benefited from sizeable support from multilateral institutions. At end-2022, multilateral creditors accounted for close to 47 percent of external debt, while debt from bilateral creditors represented about 28 percent (Text Table 2). Of Kenya's bilateral debt, close to 64 percent is owed to non-Paris Club members, mainly loans from China.
- The share of commercial debt in total external debt decreased in 2021–22, as the authorities prioritized concessional borrowing during the pandemic after several years of reliable access to global financial markets. Commercial debt (mainly Eurobonds, loans, and export credits) accounted for about 25 percent of external public debt (47 percent of projected external debt services over 2023–25). Eurobonds accounted for 75.5 percent of commercial debt (US$7.1 billion).[8] As the international bond markets effectively closed to the frontier

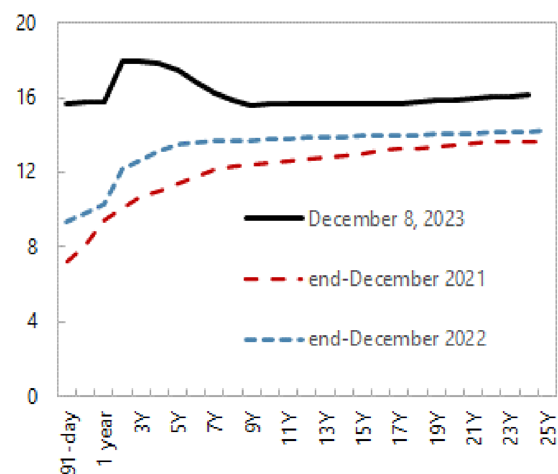
[8] Syndicated loans amounting to €305.4 million claimed by a syndicate of Italian commercial banks in relation to Arror, Kimwarer, and Itare dam projects are disputed and subject to on-going arbitration/court proceeding. The debt service schedule associated with these loans is not included in the DSA baseline, as budget provisions for their servicing are suspended until the matter is determined, but the outstanding amount on these loans is kept in the stock of public debt, following authorities' approach for reporting PPG debt in national publications (more conservative than prescribed in the LIC DSA Guidance Note).

economies, Kenya tapped syndicated loan markets in 2022-23, contracting US$800 million on commercial terms.

- Kenya has not contracted any collateralized external debt. Guarantees by the central government on debt contracted by other entities amount to around US$1.4 billion and are included in the stock of PPG debt.

6. Kenya's domestic public debt reached 33.5 percent of GDP at end-2022 (TextTable 2 and Table 2). Since end-2021, the yield curve has shifted up and flattened, reflecting the increase in near-term inflationary pressures and related policy adjustments by the Central Bank of Kenya (CBK), and a low transmission of the policy rate to longer-end of the yield curve (Text Figure 1). The successful implementation of authorities' strategy to lengthen the maturity profile of domestic debt has resulted in a significant decline in the share of Treasury bills in the domestic debt stock (from 35 percent at the end of FY2018/19 to 18.7 percent at the end of FY2021/22) and a notable increase in the average time to maturity of government domestic bonds, excluding T-bills (from 6.3 years at the end of FY2018/19 to 9.1 years at end-December 2022). This has helped alleviate short-term rollover risks, enabling the local market to absorb pressures in 2022. About half of government domestic debt securities are held by pension funds, followed by commercial banks with 47 percent share. Starting in the last quarter of the FY2021/22, domestic debt issuance has taken place mainly at the short end of the maturity spectrum in an environment of elevated inflation and flatter yield curve, increasing the intra-year rollover needs. Yields on government securities increased and the front end of the treasury yield curve continued to move up in the first half of 2023 calendar year amid large gross financing needs and tighter liquidity conditions. The average time to maturity has declined to 7.4 years, reflecting investor preference for the shorter tenor securities.

Text Figure 1. Kenya: Securities Yield Curve
(Percent)



Source: Bloomberg, L.P.

7. Published data on private external debt is available through 2021 and is extrapolated going forward with the net private external debt balance of payments (BoP) flows. The source of pre-2022 data on private external debt is the International Investment Position (IIP) data on "Other sectors", which includes both the private sector and market profit institutions that are controlled or financed by government (financial and nonfinancial public corporations), published in the IMF's IIP database. BoP data on net private external debt flows through end-2022 point to a steady upward trend in the stock of private debt as a share of GDP, which is also maintained in projections.

Text Table 2. Kenya: Decomposition of Public Debt and Debt Service by Creditor, 2022–25[1]

	Debt Stock (end of period)			Debt Service					
	2022			2023	2024	2025	2023	2024	2025
	(In US$ mln)	*(Percent total debt)*	*(Percent GDP)* [2]	*(In US$ mln)*			*(Percent GDP)*		
Total	**73,625**	**100.0**	**67.9**	**10,804**	**10,449**	**8,318**	**10.0**	**10.6**	**7.8**
External	**37,370**	**50.8**	**34.5**	**3,392**	**5,149**	**3,723**	**3.1**	**5.2**	**3.5**
Multilateral creditors	17,474	23.7	15.4	642	638	786	0.6	0.6	0.7
IMF	2,399	3.3	2.1	-	-	-	-	-	-
World Bank	11,086	15.1	9.7	-	-	-	-	-	-
African Development Bank	3,492	4.7	3.1	-	-	-	-	-	-
European Economic Community (incl. EIB)	177	0.2	0.2	-	-	-	-	-	-
International Fund For Agricultural Development	225	0.3	0.2	-	-	-	-	-	-
Other Multilaterals	96	0.1	0.1	-	-	-	-	-	-
o/w: Arab Bank For Economic Development In Africa	45	0.1	0.0	-	-	-	-	-	-
Nordic Development Fund	23	0.0	0.0	-	-	-	-	-	-
Bilateral Creditors	10,497	14.3	9.2	1,447	1,376	1,330	1.3	1.4	1.3
Paris Club	3,793	5.2	3.3	430	398	383	0.4	0.4	0.4
o/w: Japan	1,403	1.9	1.2	-	-	-	-	-	-
France (incl. AFD)	774	1.1	0.7	-	-	-	-	-	-
Non-Paris Club	6,705	9.1	5.9	1,017	978	946	0.9	1.0	0.9
o/w: EXIM China	6,557	8.9	5.8	-	-	-	-	-	-
EXIM India	61	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	9.6	6.2	515	2,444	667	0.5	2.5	0.6
Commercial creditors	1,881	2.6	1.7	680	537	698	0.6	0.5	0.7
o/w: Trade and Development Bank	1,728	2.3	1.5	-	-	-	-	-	-
China Development Bank	88	0.1	0.1	-	-	-	-	-	-
Other international creditors	418	0.6	0.4	73	61	50	0.1	0.1	0.0
o/w: Intesa SanPaolo	235	0.3	0.2	-	-	-	-	-	-
ING Bank Germany	23	0.0	0.0	-	-	-	-	-	-
Domestic[3]	**36,254**	**49.2**	**33.5**	**7,412**	**5,301**	**4,596**	**6.8**	**5.4**	**4.3**
Held by non-residents, total	257	0.3	0.2	-	-	-	-	-	-
T-Bills	5,587	7.6	4.9	-	-	-	-	-	-
Bonds	30,076	40.9	26.5	-	-	-	-	-	-
Loans	591	0.8	0.5	-	-	-	-	-	-
Memo items:									
Collateralized debt	0	0.0	0.0	-	-	-	-	-	-
o/w: Related	0	0.0	0.0	-	-	-	-	-	-
o/w: Unrelated	0	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Public guarantees [4]	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Other explicit contingent liabilities [5, 6]	n.a.	n.a.	n.a.	-	-	-	-	-	-

Sources: Kenyan authorities; and IMF staff calculations.

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

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

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

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

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

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

UNDERLYING ASSUMPTIONS

8. Real GDP growth is expected to pick up modestly in 2023 on the way of converging to 5.3 percent over the medium term (Text Table 4):

- Real GDP growth is projected to reach 5.1 percent in 2023 and 5 percent in 2024 (latter revised down from the previous DSA) as the need to maintain mutually consistent tighter domestic policy environment weighs on the demand and partly dampens the positive effect from a recovery in the agricultural sector from favorable rains.
- Medium-to long-term real GDP growth projections are broadly similar to the previous DSA, at around 5.3 percent. They are supported by the projected productivity growth, an

ambitious structural reform agenda, policies to reinforce credit to the private sector, as well as favorable demographic trends.[9] The reform agenda of President Ruto's administration aims at boosting agricultural transformation and inclusive growth; enabling the micro-, small- and medium-sized enterprise (MSME) economy as a private sector growth driver; improving housing and healthcare; promoting the digital superhighway; and supporting the creative economy. Over the medium term, growth is backstopped by the crowding-in effect of fiscal consolidation (i.e., lowering public financing needs would reduce demand-side pressures on domestic interest rates and free up financing for private investment, while privatization of SOEs would raise productivity), which is based on growth-friendly domestic revenue mobilization and spending rationalization measures to anchor debt sustainability.[10] Fiscal consolidation over the medium term will continue to be growth friendly, focusing on a more broad-based and equitable tax system—as envisaged under the authorities' Medium-Term Revenue Strategy (MTRS)—improved inclusivity and support under the social safety net programs, and enhanced efficiency of public investments.

- Nominal GDP in U.S. dollars is projected to be lower than in the last DSA over the medium term, reflecting REER depreciation in 2023 and 2024.

9. The adjustment in the primary fiscal balance is expected to remain on track with commitments under the Fund-supported program (Text Table 4):

- In FY2022/23, challenges in mobilizing budgeted resources impeded the implementation of the Supplementary Budget, approved in February 2023. This necessitated the passage of a second Supplementary Budget to offset the anticipated revenue shortfall and introduce expenditure saving—mostly related to undisbursed budgeted resources for projects—so as to contain the primary fiscal deficit to 0.6 percent of GDP. The shortfall in FY2022/23 net domestic financing or tax collection was smaller than previously expected, limiting the amount of unpaid bills that were carried over to FY2023/24. To avoid accumulation of arrears (i.e., unpaid bills for more than 90 days), the authorities have plans in place to prioritize execution of spending. They have constituted a Pending Bills Verification Committee and are now expected to come up with a strategy by end-February 2024 (reset structural benchmark) on validation and clearance of verified pending bills and addressing the shortcomings in public financial management that gave rise to pending bills.
- In FY2023/24, the authorities are committing to target a stronger primary balance of 0.7 percent of GDP through a second Supplementary Budget by end-March 2024 (new structural benchmark) to anchor debt sustainability, while protecting social spending (Text Tables 3 and 4). This is predicated on a comprehensive revenue package, including 1.6 percent of GDP of measures approved under the Budget and additional measures submitted to parliament in December 2023 to make up for the impact of tax collection shortfall in FY2022/23 and the first five months of FY2023/24, and additional non-tax

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

[10] The Kenya Kwanza administration has prioritized the privatization of SOEs that can operate as market producers.

revenues. The authorities also commit to further rationalizing primary expenditures with immediate effect—particularly for slow-moving projects—while supporting new initiatives (e.g., Hustler Fund) and protecting social spending. The impact of the clearance of any unpaid bills from FY2022/23 will be offset through increased revenues and controlled expenditures.

- Going forward, the overall deficit is expected to decline to below 4 percent of GDP over the medium term (Text Table 5), reflecting continued efforts to strengthen tax compliance in line with the priority areas identified under Kenya's MTRS and streamline primary expenditures—particularly for wages, stalled investment projects, and transfers to public sector entities, a number of which are slated for privatization or merger—while improving public investment management and budgetary controls.[11] The medium-term target of the primary surplus to stabilize overall public debt-to-GDP ratio improved from the last DSA and is estimated at about 0.2 percent of GDP, which does not lead to future threshold breaches. The improvement is due to stronger primary balance in the earlier years of the projection horizon. This is consistent with safeguarding debt sustainability, while relaxing somewhat the budget constraint on social and developmental spending over the long run.

Text Table 3. Kenya: Social Spending Outlays, FY2016/17–FY2023/24

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24 *Proj.*
				(Ksh. Millions)				
Social spending	256,253	305,275	345,956	380,051	407,905	434,585	443,218	518,449
Social protection	15,489	18,329	26,669	25,554	26,031	26,194	25,987	27,564
Education	219,010	269,534	295,555	314,027	337,524	359,130	370,729	452,372
Health	21,754	17,412	23,732	40,470	44,350	49,260	46,502	38,512
Memo item:				*(Percent of GDP)*				
Social spending	3.2	3.4	3.5	3.6	3.6	3.4	3.1	3.2

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

10. Macro-fiscal assumptions underlying the DSA baseline scenario include an estimate of the authorities' climate-related public investment. The forecast is benchmarked by the latest available data of 2.6 percent of GDP in 2018. It includes an additional climate investment of around 0.25 percent of GDP per year, supported by the IMF's Resilience and Sustainability Facility (RSF) and the World Bank's climate-oriented financing (see ¶27 below), as well as from other financing from development partners.[12, 13] Fiscal constraints in the short run limit the government's capacity for increasing public spending to accommodate additional climate-related needs. Against this backdrop, scaling up climate related investments will require additional focus on improving the efficiency of public spending, attracting highly concessional external

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

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

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

climate financing, and encouraging private sector participation in reaching Kenya's ambitious climate objectives (see ¶27).

Text Table 4. Kenya: Selected Macroeconomic Assumptions, 2023–43
(On calendar year basis)

	2023	2024	2025	2026	2027	2028	Long-term 1/
Nominal GDP (Ksh billion)							
Current DSA	15,184	17,064	18,905	20,985	23,215	25,660	62,386
Previous DSA (July 2023)	15,179	17,041	18,920	21,019	23,273	25,754	63,199
Real GDP (growth)							
Current DSA	5.1	5.0	5.3	5.3	5.3	5.3	5.3
Previous DSA (July 2023)	5.0	5.3	5.3	5.4	5.4	5.4	5.4
Inflation							
Current DSA	7.7	7.0	5.2	5.4	5.0	5.0	5.0
Previous DSA (July 2023)	7.8	6.6	5.4	5.4	5.0	5.0	5.0
Revenue and grants (percent of GDP)							
Current DSA	18.0	19.1	19.4	19.5	19.5	19.5	19.5
Previous DSA (July 2023)	18.0	18.3	18.1	17.9	18.1	18.2	18.8
Overall fiscal balance (percent of GDP)							
Current DSA	-5.3	-4.1	-3.3	-3.2	-3.2	-3.3	-4.6
Previous DSA (July 2023)	-5.1	-4.1	-3.7	-3.6	-3.7	-3.7	-3.7
Primary fiscal balance (percent of GDP)							
Current DSA	-0.1	1.2	1.7	1.7	1.6	1.5	0.5
Previous DSA (July 2023)	-0.2	0.8	1.0	1.1	1.0	1.0	0.5
Public debt (percent of GDP)							
Current DSA	73.5	73.4	70.4	67.8	65.4	63.1	49.3
Previous DSA (July 2023)	70.6	68.5	66.9	65.1	63.5	61.6	48.3
Current account (percent of GDP)							
Current DSA	-4.0	-4.1	-4.2	-4.2	-4.2	-4.1	-3.9
Previous DSA (July 2023)	-4.8	-5.0	-5.0	-5.0	-5.0	-4.8	-4.5
Non-interest current account (percent of GDP)							
Current DSA	-2.3	-1.9	-2.0	-2.2	-2.3	-2.3	-2.4
Previous DSA (July 2023)	-3.2	-3.4	-3.4	-3.4	-3.5	-3.4	-3.3
Exports of goods and services (growth)							
Current DSA	-3.3	9.5	9.4	8.6	8.5	8.4	9.3
Previous DSA (July 2023)	9.1	10.0	10.2	9.2	9.2	8.9	9.6

Sources: Kenyan authorities and IMF staff estimates.

1/ Average 2029-43.

11. The path of nominal public debt-to-GDP ratio is revised up from the last DSA, reflecting projected REER depreciation in 2023 and 2024, the proposed further augmentation of the IMF program, and additional commitments expected by the World Bank in 2024. 2022 real GDP growth was at 4.8 percent and the projected REER depreciation in 2023–24 has lowered the forecasted US$-value of nominal GDP. In addition, the authorities have requested access to additional Fund resources via augmentation of the existing EFF/ECF arrangements by about US$938 million (130.3 percent of quota or SDR707.27 million).[14] The World Bank financing envelope is expected to be upsized in 2024 than what was assumed in the previous DSA with additional

[14] Based on US$/SDR exchange rate as of December 11, 2023.

financing expected over the medium term.[15] Shortfalls in external project financing in FY2021/22 and FY2022/23 are not expected to be compensated going forward. Although the authorities' borrowing plan (Text Table 6) continues to provide ample space for the shortfall, financing assumptions underpinning the DSA baseline are more conservative. Reflecting consistent under-execution of borrowing plan, DSA financing assumptions are in line with the recent history of project disbursements and performance in terms of investment absorption capacity. In the case of commercial borrowing, as the return of frontier economies to international bond markets is expected to be slow, DSA baseline assumes significantly less Eurobond and syndicated loan issuance until the end of 2024. Overall, while possibility of borrowing beyond the baseline remains a risk, the fiscal adjustment under the program and the authorities' medium-term debt anchor (55 percent PV of overall debt to GDP ratio) mitigates it.

12. To support economic recovery, the CBK has lent the equivalent of the full amount of the 2021 US$740 million general allocation of SDRs to the government in local currency to meet financing needs in FY2021/22 and FY2022/23. In the DSA, the amounts lent are recorded as domestic debt at face value.[16]

Text Table 5. Kenya: Selected Macroeconomic Indicators, 2022–28

	2022	2023	2024	2025	2026	2027	2028
		Projections					
Real GDP growth (percent)	4.8	5.1	5.0	5.3	5.3	5.3	5.3
CPI inflation, average (percent)	7.6	7.7	7.0	5.2	5.4	5.0	5.0
Overall fiscal balance (percent of GDP) [1]	-6.4	-5.6	-4.3	-3.5	-3.3	-3.4	-3.5
Primary balance (percent of GDP)[1]	-1.0	-0.6	0.7	1.7	1.7	1.6	1.6
Current account balance (percent of GDP)	-5.2	-4.0	-4.1	-4.2	-4.2	-4.2	-4.1
Exports of goods and services (US$ billion)	13.8	13.4	14.6	16.0	17.4	18.9	20.5
Exports of goods and services (growth; percent)	17.1	-3.3	9.5	9.4	8.6	8.5	8.4
Gross international reserves (US$ billion)	8.0	7.6	8.1	9.0	9.9	10.6	11.6

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal years (e.g., 2022 refers to FY 2021/22).

13. As part of the restructuring of Kenya Airways (KQ), the Government of Kenya has begun servicing the guaranteed portion of KQ external debts, which the company can no longer service. The authorities also report to have completed the novation process of the guaranteed external loan. As a result, public and publicly guaranteed debt includes the sum of the principal of these obligations and the remaining government guarantee on other KQ external loans (US$638 million as of December 2022) in place of the US$750 million government guarantee of KQ debts recorded previously.[17]

[15] See the World Bank's November 20, 2023 Statement.

[16] In the last DSA, these loans entered the calculation in present-value terms with a grant element of 39.4 percent. A review of the loan agreements has since determined that the principal repayments are effectively indexed to the Ksh/SDR rate, making them non-concessional.

[17] The total includes the undrawn amount of government-guaranteed loan facilities and letters of credit by local banks, due to the high likelihood that they would be fully utilized.

14. The current account deficit is projected to improve to 4 percent of GDP in 2023 and stabilize around 4.2 percent over the medium term:

- Current account deficit narrowed in the first three quarters of 2023, reflecting broad based decline in both energy and non-energy imports amid real exchange rate depreciation and completion of some large infrastructure projects. Exports of goods and services have slowed as the demand from traditional agricultural export markets was subdued and transportation services saw a sharp contraction. Tourism receipts exceeded pre-pandemic levels and together with robust remittances supported external balance.
- Over the medium term, the expected stabilization of the current account deficit is warranted, primarily through adjustments in imports, as capital flows continue to adjust to "higher for longer" global interest rates. The improvement in the current account will be supported by the further fiscal consolidation and robust goods exports and tourism receipts, continued exchange rate flexibility, and by the gradual normalization of global commodity and financial market conditions. Export growth stands to benefit from Kenya's improving business environment, leveraging on existing trade and investment agreements, and the new administration's policy priorities to increase the share of manufacturing (including agro-processing) and services (including tourism and financial sector) in the economy.[18] In addition, export growth will be supported by policies to enhance agricultural productivity, including focus on farmer-led irrigation, efforts to modernize Kenya's food systems, and greater value chain integration. Services are projected to gradually increase over the medium term, as the tourism sector realizes its full potential. Remittances are also projected to remain robust over the medium term. The private sector current account deficit is expected to improve too and to be financed by a diversified set of sources, including foreign direct investment (FDI) and financial and non-financial corporate borrowing.

15. As part of a continuing commitment to reduce external debt-related vulnerabilities, the public sector gross financing needs will be met with a balanced mix of external and domestic financing. For external financing, Kenya is expected to continue to primarily rely on multilateral loans in 2024. The authorities' external borrowing program, set out in Text Table 6, is in line with the authorities' commitments under the IMF-supported EFF/ECF arrangements. These include an overall ceiling on the present value of newly contracted or guaranteed external public debt, which is also a performance and policy action (PPA) under the World Bank's Sustainable Development Finance Policy (SDFP).[19] The cumulative external borrowing program through end-December 2024 is consistent with planned drawings of concessional and non-concessional loans in

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

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

FY2022/23 and FY2023/24. The borrowing program continues to provide space for the US$1.1 billion external commercial financing, which did not take place in FY2021/22, and US$5 billion for debt management operations, both of which have been put on hold in light of the current challenging market conditions for frontier markets and are not reflected in the DSA baseline. A successful execution of the debt management operations would significantly lower liquidity risks related to the debt service profile. The authorities have significantly stepped up their efforts and selected two lead managers to explore the scope of issuing in the Eurobond market at a reasonable cost but likely for a small amount. In parallel they are exploring alternative sources of financing from multilateral and bilateral lenders and the syndicated loans market. Kenya's external position is backstopped by its gross international reserves, which, despite a projected decline in 2023, remain at adequate levels. Import coverage of reserves is expected to remain above the 3-month threshold, which is also close to the value of the IMF's reserve adequacy metric for credit-constrained economies, and gradually strengthen over time to 4.2 months of imports of goods and services over the medium term.[20] Looking beyond 2024, sizable external commercial debt will be falling due in 2025-26 and Kenya is expected to continue to tap global capital markets to roll over them over.

16. The realism tools flag some optimism compared to historical performance, reflecting a structural break with past trends based on the policies underpinning the authorities' ambitious reform program (Figure 4). While protecting social spending, the baseline scenario assumes an improvement of the fiscal primary balance of 3.1 percentage points of GDP over three years in 2023–25, which falls in the bottom half of the top quartile of the distribution for LICs. Staff is of the view that this is realistic and in line with the authorities' plan for fiscal consolidation under the program, as reflected in the draft Supplementary FY2023/24 Budget, their careful management of expenditures to achieve fiscal targets in the face of heightened pressures, and their medium-term plans to strengthen tax revenues and streamline recurrent expenditures—particularly for wages and transfers to public sector entities—while improving public investment management and budgetary controls. The authorities' commitment to fiscal consolidation, including actions taken during the pandemic to broaden the tax revenue base, which have delivered resilience by creating fiscal space to cover unanticipated needs resulting from the war in Ukraine (e.g., gradual approach to adjusting domestic fuel prices during 2022), and actions taken to compensate for expenditure pressures in FY2022/23, while reducing the primary balance below the initially budgeted levels, provide assurances that the fiscal adjustment under the program is achievable. The return of real GDP growth to its long-term potential, following the strong recovery from the COVID–19 shock in 2021, explains the near-term growth trajectory during planned fiscal consolidation. Export growth is projected to be higher than in the recent past, as exports of goods and services recover from the 2020 global shock. The projection for private investment incorporates the weaker outturn in 2022, revised view of the impact in 2023 from the tightening in monetary policy and projected external adjustments in 2023 and over the medium term.

[20] In the near term, reserves are bolstered by increased support from multilateral institutions for the ambitious government reform agenda (see ¶11), while over the medium-term they are expected to benefit from the crowding-in effect of fiscal consolidation on private sector external borrowing (see ¶8).

Text Table 6. Kenya: Summary Table of Projected External Borrowing Program from July 1, 2021, to December 31, 2024[1/]

PPG external debt	Volume of New Debt from Jul 1, 2021 to Dec 31, 2024		PV of New Debt from Jul 1, 2021 to Dec 31, 2024 (Program Purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**19243.0**	**100**	**13401.8**	**100**
Concessional debt, of which	**12995.3**	**68**	**7524.5**	**56**
Multilateral debt	8954.4	47	5240.8	39
Bilateral debt	4010.9	21	2265.9	17
Other	0.0	0	0.0	0
Non-concessional debt, of which	**6247.7**	**32**	**5877.3**	**44**
Semi-concessional	1228.1	6	857.8	6
Commercial terms	5019.5	26	5019.5	37
By Creditor Type	**19243.0**	**100**	**13401.8**	**100**
Multilateral	9459.1	49	5584.5	42
Bilateral - Paris Club	2116.5	11	1281.0	10
Bilateral - Non-Paris Club	2484.6	13	1391.6	10
Other	5182.7	27	5144.7	38
Uses of debt financing	**19243.0**	**100**	**13401.8**	**100**
Infrastructure	9244.8	48	7110.0	53
Social Spending	5806.7	30	3346.2	25
Budget Financing	2259.3	12	1409.7	11
Other	1932.2	10.0	1536.0	11.5

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

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

17. Kenya's debt carrying capacity is assessed as medium (Text Table 7). The debt carrying capacity determines the applicable thresholds for the PPG external and total public debt sustainability indicators used in the assessment. It is informed by the value for Kenya of the Composite Indicator (CI) Index of 3.01,[21] which incorporates data from the IMF's October 2023 *World Economic Outlook* (WEO) macroeconomic projections and the 2022 World Bank's Country Policy and Institutional Assessment (CPIA). The marginally higher CI score relative to the last published DSA is on account of the stronger projected path of import coverage of reserves.

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

Text Table 7. Kenya: Composite Indicator and Thresholds

Country	Kenya
Debt Carrying Capacity	Medium

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

Note: The current-vintage Composite Indicator Index is based on the IMF's 2023 October World Economic Outlook and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.75	1.45	48%
Real growth rate (in percent)	2.719	4.92	0.13	4%
Import coverage of reserves (in percent)	4.052	37.75	1.53	51%
Import coverage of reserves^2 (in percent)	-3.990	14.25	-0.57	-19%
Remittances (in percent)	2.022	3.68	0.07	2%
World economic growth (in percent)	13.520	2.89	0.39	13%
CI Score			3.01	100%
CI rating			Medium	

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

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

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

19. **External debt burden indicators in terms of exports and revenues breach respective thresholds under the baseline, giving rise to a mechanical high-risk signal (Table 1, Table 3, and Figure 1).** The PV of PPG external debt-to-exports solvency indicator remains above the threshold (180 percent) through 2029, while the debt service-to-exports liquidity indicator exceeds its threshold (15 percent) through 2034. The solvency indicator gradually declines as exports

recover; the long-term trend decline in the liquidity indicator is interrupted by Eurobond repayments in 2024 and 2028 and the rollover of external bank loans coming due in 2025–26 and 2028. The projected rollovers of maturing commercial financing also push the external debt service-to-revenue ratio above its sustainability threshold (18 percent) in the same years. The PV of PPG external debt as a share of GDP remains well below the 40 percent indicative threshold throughout the projection period (Table 1 and Figure 1). Reflecting fiscal consolidation efforts and a borrowing mix that favors concessional borrowing, this solvency indicator is expected to decline from 31.7 percent in 2023 to 15 percent in 2043. The external debt burden indicators are higher than projected in the last DSA, reflecting the level effect of lower GDP in US$ in 2023–24, the REER depreciation in 2023 and 2024, further increase in interest expenses of external loans with floating interest rates and increased support by development partners (¶11).

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

21. The market financing pressures module ranks market liquidity risks as moderate (Figure 5). Kenya's EMBI spread has widened above the threshold of 570 basis points (589 basis points as of December 20, 2023, having come down from the highs reached in the runup to the 2022 elections). On the plus side, gross financing needs are below the threshold (14 percent of GDP) that indicates high risk. Fiscal consolidation efforts under the IMF-supported EFF/ECF arrangements would help keep gross financing needs below the threshold. As is the case for other emerging and frontier economies, financing risks are affected by global liquidity conditions. Persistent deterioration in global market conditions would exacerbate financing risks for Kenya. The shift in the deficit financing mix toward domestic resources calls for monitoring, given the elevated levels of domestic interest rates.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

22. The PV of total public debt-to-GDP ratio remains above the 55 percent benchmark—for a country rated at medium debt-carrying capacity—through 2029, giving rise to a mechanical high-risk signal (Figure 2 and Table 2). Public sector debt is projected to peak in 2023 at 68 percent of GDP (PV terms), followed by a steady decline. Supported by fiscal consolidation under the program, including revenue mobilization measures, the PV of public debt-to-revenue ratio (380 percent in 2023) is projected to be about 168 percent by 2043.

23. Standard stress tests indicate that the PV of debt-to-GDP ratio is likely to remain above its indicative benchmark for most of the projection period under these scenarios (Figure 2 and Table 4). This is also the case in the historical scenario, in which key variables are kept at their historical averages, underscoring the importance of the authorities' ambitious reform

agenda to reorient the economy to private-sector and export-oriented growth drivers to durably reduce debt-related vulnerabilities. Under the most extreme standard shock scenario (primary balance shock),[22] the PV of the public debt-to-GDP ratio would breach the 55 percent benchmark for a country with medium debt-carrying capacity through 2036.

CLIMATE CHANGE RISKS

24. Kenya is highly vulnerable to climate change shocks, especially floods and droughts, which might affect debt dynamics. The total cost of climate change is estimated at 2–2.4 percent of GDP per year in Kenya.[23] This is largely due to the climate-sensitive nature of Kenya's economy, with agriculture, water, energy, tourism, and wildlife sectors playing an important role in it. Climate change can affect debt sustainability indicators through the negative impact on the fiscal deficit and balance of payments, short-term output losses from destruction of capital and the possibility of long-term scarring from productivity losses in climate-sensitive economic activities, as well as inflationary pressures that can further erode purchasing power. Specifically:

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

However, private and public spending on reconstruction also holds the promise of replacing obsolete production capacity with state-of-art technologies that can spur long-term growth. The current macro baseline does not explicitly model the effect of climate change, beyond the broad view on growth prospects of the economy, which embed the average effect of climate change in historical series.[24] The impact of climate change is, instead, accounted by a customized natural disaster stress test.

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[22] See next section for a discussion of the natural disaster *custom* stress scenario, which has an even bigger impact on debt burden metrics.

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

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

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

26. Kenya's Nationally Determined Contribution (NDC) envisions 32 percent reduction in country's greenhouse gas emissions by 2030. At end-2022, more than 90 percent of electricity was generated from renewable sources. Kenya has also made significant strides in leveraging private climate finance through various channels—including public private partnerships (PPPs) in renewable energy projects, corporate green bond issuance, several blended finance mechanisms to de-risk private sector investments, and active engagement in global climate funds.

27. Achieving Kenya's ambitious climate objectives would require private sector participation and mobilization of additional tax revenues and concessional resources. Achieving Kenya's NDC pledge is estimated to entail climate-related investment needs of around 6 percent of GDP per year over 2023–30.[25] Some of these needs are addressed by existing investment projects,[26] with the balance is expected to be met through a mix of private sector participation and highly concessional external financing.

28. Debt sustainability risks from reaching the climate goals are assumed to be limited, as authorities' efforts, beyond making the existing investment pipeline more climate responsive, will be contingent on mobilizing additional, highly concessional, climate financing and private sector solutions supported by market incentives. The implementation of reforms supported by the requested IMF Resilience and Sustainability Facility (RSF) would help achieve NDC pledges while safeguarding debt sustainability by: (i); incorporating climate risks into fiscal planning and investment framework; (ii) mobilizing climate revenue and strengthening the efficiency of climate spending; (iii) enhancing effectiveness of Kenya's existing frameworks to mobilize climate finance; (iv) strengthening disaster risk reduction and management. By supporting enhancements in Kenya's public financial management framework and improvements in public investment efficiency, RSF-

[25] See Kenya's Nationally Determined Contribution 2020-30.

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

related reform measures will help Kenya make public investment more climate responsive. They would also provide strong signal to investors, support establishing a pipeline of bankable projects, and accelerate mobilization of private financing.[27]

RISK RATING AND VULNERABILITIES

29. Kenya's overall and external public debts are assessed sustainable but remain at high risk of debt distress. The mechanical risk signals indicate sustained breaches of sustainability thresholds by solvency and liquidity indicators under the baseline scenario—the PV of external debt-to-exports and external debt service-to-exports ratios, as well as the PV of overall public debt-to-GDP ratio. A number of additional considerations mitigate the mechanical risk signals, supporting the analysis:

- The decisive actions already undertaken in 2020-23 to limit the increase in the deficit from global shocks (pandemic, war in Ukraine) and to broaden the tax base;
- The multi-year fiscal consolidation under the IMF-supported EFF/ECF arrangements which aims to decisively reduce deficits and increase tax revenue;
- The consistently strong performance of remittances, which supports external sustainability, paired with a favorable outlook for exports that will be supported by strong policy measures to boost export competitiveness;
- External debt service profile is on a clear declining trajectory beyond 2024 as share of exports and public revenues, which authorities plan to further optimize if market conditions are favorable;
- Close attention to evaluating risks at SOEs and the commitment under the IMF-supported EFF/ECF arrangements to limit the impact on the deficit of any fiscal support (e.g., via offsets);
- Ongoing efforts to strengthen fiscal sustainability under the SDFP by rationalizing public investments on the basis of rigorous criteria;
- Climate adaptation and mitigation strategies, with focus on water management, agriculture and food security, ecosystem conservation, disaster risk reduction, sustainable energy transition, climate information and research, health and human security, education and awareness, can help curb and cushion climate risks, limiting the impact on debt ratios; and
- The authorities' proactive preparation for the June 2024 Eurobond rollover. They have hired international lead managers and are also exploring alternative sources of financing from multilateral and bilateral lenders. The negotiations with regional banks to contract syndicated loans are advancing.

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[27] For example, the National Green Fiscal Incentives Policy Framework, to be adopted by end-2023, is expected to include fiscal and economic mechanisms, that could be used to promote climate-friendly investments, including carbon pricing and electric and hybrid modes of transportation.

- The authorities amended PFM act to adopt DSA's threshold of 55 percent overall debt to GDP ratio in PV terms as the medium-term debt anchor to underpin fiscal policy and provide additional policy credibility.
- Looking ahead, efficient investment in infrastructure will raise growth and export potential, both of which will support Kenya's external debt sustainability.

30. Fiscal consolidation under Kenya's IMF-supported program would achieve and surpass the debt-stabilizing primary balance. Debt would begin declining as a share of GDP starting in 2025. Indicators measured against exports will also gradually improve as the recovery of exports takes hold and reforms under the IMF-supported EFF/ECF arrangements and upcoming World Bank DPO enhance competitiveness. Given the magnitude of mechanical threshold breaches under the baseline, consolidation efforts would need to be sustained over the medium term to restore fiscal space and reduce debt-related risks. Of note:

- While the PV of total public debt-to-GDP ratio remains above the indicative threshold (55 percent), the authorities' commitment to fiscal consolidation under the program safeguards debt sustainability. Important actions have already been taken to permanently broaden the tax revenue base, alongside expenditure savings. The multiyear fiscal consolidation plan highlighted in the 2023 Budget Policy Statement (BPS) and substantiated by the FY2023/24 Budget is premised on a more conservative approach to revenue projections and a commitment to additional policy steps to increase tax revenues and control expenditures under the EFF/ECF arrangements with the specific objective of anchoring debt sustainability.
- Kenya's PV of external debt as a share of GDP is well below the 40 percent indicative threshold and will gradually decline over time. Kenya's external debt indicators are expected to gradually improve as fiscal consolidation progresses, exports recover as the global shocks dissipate, and Kenya makes progress to unlock its substantial export potential.
- Kenya's borrowing plan relies on a balanced mix of commercial and concessional financing that contributes to reducing debt risks, supported by limits on the government's external borrowing under the EFF/ECF arrangements and PPAs under the SDFP, which also support steps to improve debt transparency.

31. Debt sustainability is also supported by stable and strong remittances, manageable and steadily declining gross financing needs and the authorities' commitment to insulate the public sector balance sheet from SOE-related contingent liabilities. While the protracted breaches of most debt burden indicators are a source of concern, there are mitigating factors that help support the debt sustainability assessment. The gross financing needs beyond 2024 is relatively small and on a clear declining trajectory over the projection period, signaling a strengthening in debt servicing capacity. The authorities' commitment to absorb the fiscal costs associated with materialization of SOE-related contingent liabilities with a limited impact on the programmed fiscal envelope will help avoid further deterioration in the public sector balance sheet. Stable and strong remittances, amounting to 29 percent of exports of goods and services in 2022, would also continue to be an important source for foreign currency receipts going forward.

32. Strong reform measures could help Kenya elevate its debt carrying capacity, improving debt outlook and assessment significantly. Kenya is currently assessed to have a medium debt carrying capacity with a CI score of 3.01, slightly below the 3.05 required to be upgraded to strong category with correspondingly higher debt burden thresholds. As the authorities embark on strong policy measures and structural reforms, especially on the PFM front this could help increase its CPIA and CI score, further mitigating risks to debt sustainability in coming years. To this end, the authorities' EFF/ECF arrangements incorporate two structural benchmarks—PFM measures for avoiding future accumulation of expenditure arrears and a medium-term strategy to strengthening revenue administration—as well as several ongoing measures to improve budgeting process, fiscal risk management, and fiscal transparency. Combined with implementing the new PFM reform strategy 2023-2028, these measures will strengthen budget credibility and expenditure efficiency.

33. The assessment is subject to heightened uncertainty in the global environment and a narrow scope for deviations from the domestic reform agenda underpinning the baseline. Kenya is exposed to heightened risks to the global outlook through international trade and financing channels. Intensification of global spillovers from the war in Ukraine could drive persistent investor concerns about the prospects of frontier economies and increase the cost of financing. Exports could underperform the baseline on account of a) lower demand from major economies due to shocks or policy measures (e.g., potentially further tightening of monetary policy to address concerns on inflation); and b) delays in domestic structural reforms needed to support medium-term export growth. Domestic government bond holdings by pension funds and commercial banks expose the economy to feedback between sovereign and financial sector risks, while the need to rollover maturing external commercial debt exposes the country to risks from a liquidity squeeze. Domestic political risks (e.g., any unrest or disruptions due to concerns on cost of living, rising tax burden, etc.) or any deterioration in the security situation could disrupt trade and tourism. Even with the strong commitment by authorities to fiscal consolidation, there is a risk for slippages especially in the long run. Finally, crowding-in effect of the fiscal consolidation into private sector growth might take longer to materialize.

AUTHORITIES' VIEWS

34. The authorities broadly agreed with IMF staff's assessment, emphasizing that addressing and reducing debt vulnerabilities remain key policy priority. They reaffirmed their commitment to fiscal adjustment to arrest elevated debt vulnerabilities, while also recognizing the need to meet infrastructure needs with sustainable financing. The authorities emphasized their strategy to prioritize concessional financing in the immediate term as the international markets remain effectively closed to frontier economies but remain focused on restoring Kenya's access to capital markets as soon as conditions allow. In coordination with their financial advisors, they are actively assessing their options to tap the markets this fiscal year. The authorities emphasized their determination to extend the maturity of domestic debt and pursue a financing strategy that balances domestic issuance and external financing, avoiding crowding out domestic private sector.

They expressed confidence that adoption of the debt target of overall debt to GDP ratio of 55 percent in present value terms will better anchor their medium-term fiscal policies.

Box 1. Impact of Changes in Data Reporting on DSA indicators

The authorities are expected to adjust trade statistics to reflect oil import and reexports properly. Under the Government-to-Government (G2G) oil import arrangement three Kenyan Oil Marketing Companies (OMCs) own cargo upon delivery by international oil companies to Kenya's Mombasa port. Upon taking the ownership of the oil cargo, Kenyan OMCs sell about 62 percent of imported oil domestically and reexport about 38 percent to the regional countries. The change of ownership between a resident and non-resident is central to BoP recording. As the Kenyan OMCs own the cargo and carry out the risks and rewards before selling it to non-residents, this portion of oil imports should be captured in the BoP trade balance properly. As the Kenyan authorities adjust BoP data recording accordingly, exports and imports will increase. This will have no material impact on the current account dynamics, however, the metric on reserves in months of import coverage will deteriorate.

Export related external debt burden indicators in DSA will improve mechanically. Preliminary estimates suggest these changes would mechanically improve PV of debt-to-exports (about 37 percentage points in 2023) and debt service-to-exports (3.3 percentage points in 2023) ratios in the DSA, allowing both indicators remain below respective thresholds by the end of projection horizon (Box Figure 1). These mechanical improvements would have no material impact on Kenya's debt servicing capacity. As such, while correct BoP data reporting is welcome development, it would not have an impact on staff's assessment of Kenya's debt sustainability.

Box 1. Figure 1. Kenya: Debt Trajectory with Reexports Adjustment

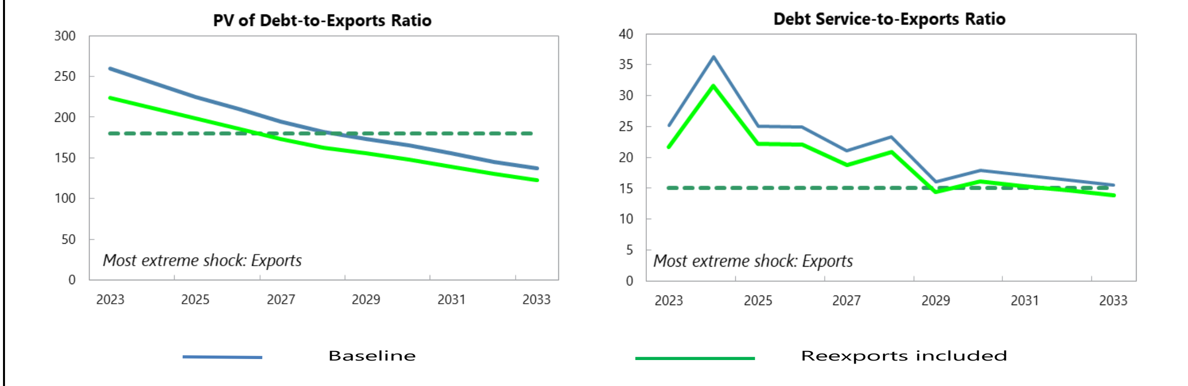
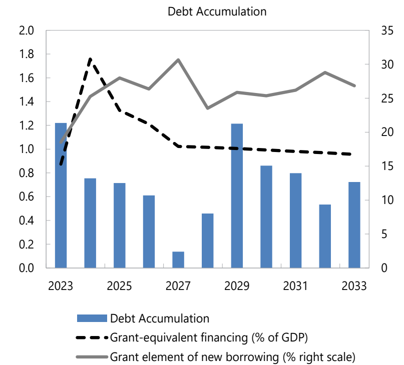


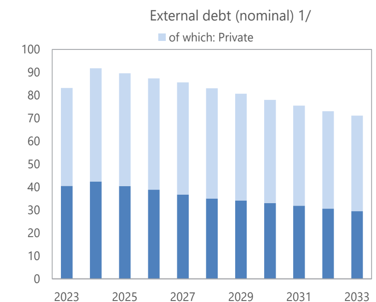
Table 1. Kenya: External Debt Sustainability Framework, Baseline Scenario, 2020–43

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	72.2	71.1	73.5	83.2	91.8	89.6	87.3	85.6	83.0	71.1	55.3	57.6	81.7
of which: public and publicly guaranteed (PPG)	35.4	34.7	34.5	40.5	42.4	40.4	38.8	36.7	35.0	29.5	18.8	27.7	35.7
Change in external debt	6.3	-1.1	2.3	9.7	8.6	-2.2	-2.3	-1.7	-2.6	-2.0	-2.3		
Identified net debt-creating flows	3.8	-0.7	2.5	-0.1	-1.2	-1.3	-1.4	-1.4	-1.5	-1.5	-1.1	2.0	-1.3
Non-interest current account deficit	3.6	4.1	3.9	2.3	1.9	2.0	2.2	2.3	2.3	2.3	2.8	5.2	2.2
Deficit in balance of goods and services	7.9	9.1	9.3	7.7	8.0	7.7	7.7	7.8	7.7	7.2	6.4	9.9	7.6
Exports	9.6	10.8	12.2	12.3	14.9	15.1	15.2	15.4	15.5	16.9	20.9		
Imports	17.6	19.9	21.5	20.0	22.9	22.8	22.9	23.2	23.2	24.0	27.2		
Net current transfers (negative = inflow)	-4.9	-5.6	-5.7	-6.1	-7.0	-6.9	-6.7	-6.7	-6.7	-6.4	-5.6	-5.2	-6.6
of which: official	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0		
Other current account flows (negative = net inflow)	0.6	0.5	0.3	0.8	0.9	1.2	1.2	1.2	1.3	1.5	2.1	0.5	1.2
Net FDI (negative = inflow)	-0.6	0.0	-0.3	-0.3	-0.7	-1.0	-1.3	-1.3	-1.5	-1.8	-2.1	-0.7	-1.3
Endogenous debt dynamics 2/	0.8	-4.7	-1.1	-2.2	-2.4	-2.3	-2.3	-2.4	-2.3	-2.0	-1.7		
Contribution from nominal interest rate	1.2	1.2	1.3	1.7	2.1	2.2	2.0	2.0	1.9	1.6	1.1		
Contribution from real GDP growth	0.2	-5.0	-3.3	-3.9	-4.5	-4.5	-4.4	-4.3	-4.2	-3.6	-2.9		
Contribution from price and exchange rate changes	-0.6	-0.9	0.9	...	...	...	...	...	...	...	...		
Residual 3/	2.5	-0.4	-0.1	9.8	9.8	-0.9	-0.9	-0.3	-1.1	-0.5	-1.3	2.4	1.1
of which: exceptional financing	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	29.0	31.7	35.8	33.8	31.8	29.9	28.3	23.3	13.9		
PV of PPG external debt-to-exports ratio	...	...	238.2	256.9	240.3	224.0	209.9	194.3	182.1	137.9	66.6		
PPG debt service-to-exports ratio	25.7	22.5	21.5	24.9	36.0	25.1	24.9	21.1	23.3	15.5	7.9		
PPG debt service-to-revenue ratio	15.1	14.6	15.3	17.3	28.5	19.8	19.6	16.9	18.8	13.6	8.3		
Gross external financing need (Million of U.S. dollars)	27,431	28,168	29,130	28,105	30,252	30,032	31,478	32,050	33,788	38,229	56,805		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-0.3	7.6	4.8	5.1	5.0	5.3	5.3	5.3	5.3	5.3	5.3	4.5	5.3
GDP deflator in US dollar terms (change in percent)	0.9	1.2	-1.3	-9.2	-13.6	2.6	2.6	1.7	1.8	1.8	1.6	2.7	-0.5
Effective interest rate (percent) 4/	1.8	1.8	1.9	2.2	2.3	2.5	2.5	2.4	2.4	2.4	2.1	2.1	2.4
Growth of exports of G&S (US dollar terms, in percent)	-15.4	21.8	17.1	-3.4	9.5	9.4	8.6	8.5	8.4	9.3	9.3	2.7	7.8
Growth of imports of G&S (US dollar terms, in percent)	-13.2	23.3	11.6	-11.0	3.7	7.8	8.3	8.3	7.5	8.0	8.8	3.8	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	18.5	25.2	28.0	26.3	30.6	23.5	26.8	#DIV/0!	...	25.9
Government revenues (excluding grants, in percent of GDP)	16.4	16.6	17.1	17.7	18.8	19.1	19.2	19.2	19.2	19.2	19.8	17.0	19.0
Aid flows (in Million of US dollars) 5/	1,841	1,785	1,730	1,874	3,203	2,726	2,734	2,651	2,804	3,654	2,449		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.9	1.8	1.3	1.2	1.0	1.0	1.0	...	...	1.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	23.6	28.7	32.8	31.1	36.5	28.6	32.9	...	...	31.2
Nominal GDP (Million of US dollars)	100,912	109,875	113,701	108,521	98,398	106,317	114,768	122,852	131,684	186,619	372,056		
Nominal dollar GDP growth	0.6	8.9	3.5	-4.6	-9.3	8.0	7.9	7.0	7.2	7.2	7.0	7.3	4.8
Memorandum items:													
PV of external debt 7/	...	...	68.0	74.4	85.2	83.0	80.4	78.8	76.4	64.9	50.5		
In percent of exports	...	...	558.5	603.0	572.1	550.4	529.7	512.7	491.2	384.7	242.0		
Total external debt service-to-exports ratio	239.4	200.0	176.0	189.2	188.7	167.4	158.3	146.1	141.2	97.4	49.3		
PV of PPG external debt (in Million of US dollars)			32,987	34,374	35,192	35,896	36,545	36,702	37,265	43,413	51,696		
(PVt-PVt-1)/GDPt-1 (in percent)				1.2	0.8	0.7	0.6	0.1	0.5	0.7	-0.9		
Non-interest current account deficit that stabilizes debt ratio	-2.7	5.2	1.5	-7.4	-6.7	4.2	4.4	4.0	4.8	4.3	5.2		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

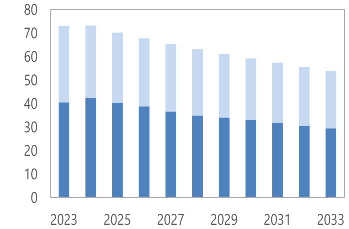
Table 2. Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–43

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	68.0	68.2	67.9	73.2	73.3	70.3	67.8	65.4	63.1	54.0	38.2	55.1	63.7
of which: external debt	35.4	34.7	34.5	40.5	42.4	40.4	38.8	36.7	35.0	29.5	18.8	27.7	35.7
			33.46										
Change in public sector debt	8.9	0.3	-0.3	5.3	0.0	-3.0	-2.5	-2.4	-2.3	-1.8	-0.6		
Identified debt-creating flows	7.8	1.0	2.1	-2.0	-2.5	-2.5	-2.5	-2.4	-2.3	-1.8	-1.2	2.7	-2.1
Primary deficit	3.8	2.7	1.4	0.1	-1.2	-1.7	-1.7	-1.6	-1.5	-0.5	-0.3	3.3	-1.1
Revenue and grants	16.7	16.8	17.3	17.9	19.1	19.4	19.5	19.5	19.5	19.5	20.1	17.4	19.3
of which: grants	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.3		
Primary (noninterest) expenditure	20.5	19.6	18.6	18.1	17.9	17.7	17.8	17.8	18.0	18.9	19.9	20.7	18.2
Automatic debt dynamics	4.0	-1.8	0.7	-2.1	-1.3	-0.8	-0.8	-0.8	-0.8	-1.3	-1.0		
Contribution from interest rate/growth differential	2.7	-3.0	-2.5	-2.1	-1.3	-0.8	-0.8	-0.8	-0.8	-1.3	-1.0		
of which: contribution from average real interest rate	2.6	1.8	0.7	1.1	2.2	2.9	2.7	2.6	2.5	1.6	1.0		
of which: contribution from real GDP growth	0.2	-4.8	-3.2	-3.3	-3.5	-3.7	-3.5	-3.4	-3.3	-2.8	-2.0		
Contribution from real exchange rate depreciation	1.2	1.2	3.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.1	-0.7	-2.4	7.3	2.5	-0.5	0.0	0.0	0.0	0.0	0.6	0.3	0.9
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	63.9	68.2	67.2	64.0	61.4	59.1	56.9	48.1	34.0		
PV of public debt-to-revenue and grants ratio	...	...	370.3	380.3	352.0	330.1	315.1	303.5	292.2	247.3	168.7		
Debt service-to-revenue and grants ratio 3/	54.1	55.2	56.0	55.2	68.9	58.0	55.5	50.5	50.9	43.6	26.6		
Gross financing need 4/	12.8	12.0	11.0	10.1	11.9	9.5	9.2	8.2	8.4	8.0	5.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-0.3	7.6	4.8	5.1	5.0	5.3	5.3	5.3	5.3	5.3	5.3	4.5	5.3
Average nominal interest rate on external debt (in percent)	3.5	3.1	3.0	3.7	3.7	3.4	3.3	3.3	3.2	3.4	2.7	2.9	3.4
Average real interest rate on domestic debt (in percent)	6.7	7.5	5.9	3.7	5.5	8.0	7.6	7.7	7.4	4.8	4.9	5.3	6.4
Real exchange rate depreciation (in percent, + indicates depreciation)	4.0	3.8	10.1	...	...	...	...	...	...	...	...	0.2	...
Inflation rate (GDP deflator, in percent)	4.9	4.3	6.0	8.1	7.0	5.2	5.5	5.1	5.0	4.9	1.6	6.1	5.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	2.9	-0.1	2.0	3.7	4.0	6.2	5.4	6.3	5.8	8.3	3.7	5.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-5.1	2.5	1.7	-5.1	-1.2	1.3	0.8	0.8	0.8	1.2	0.4	-0.3	0.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2023–33

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to GDP Ratio											
Baseline	32	36	34	32	30	28	28	26	25	24	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	32	33	35	36	38	40	**42**	**44**	**46**	**48**	**49**
B. Bound Tests											
B1. Real GDP growth	32	37	37	35	33	31	30	29	28	26	25
B2. Primary balance	32	38	40	38	36	34	34	33	32	31	30
B3. Exports	32	38	**41**	39	36	35	34	32	31	29	28
B4. Other flows 3/	32	38	39	37	35	33	32	31	29	28	27
B5. Depreciation	32	**47**	**40**	38	35	33	33	31	30	29	28
B6. Combination of B1-B5	32	40	40	38	36	34	33	32	30	29	28
C. Tailored Tests											
C1. Combined contingent liabilities	32	39	37	35	33	32	31	31	30	29	28
C2. Natural disaster	32	**41**	40	39	37	36	36	36	36	36	35
C3. Commodity price	32	36	34	32	30	28	28	26	25	24	23
C4. Market Financing	32	**41**	38	36	34	32	31	30	29	28	26
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of Debt-to-Exports Ratio											
Baseline	**257**	**240**	**224**	**210**	**194**	**182**	174	166	156	146	138
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**257**	**221**	**230**	**241**	**247**	**255**	**267**	**277**	**284**	**288**	**293**
B. Bound Tests											
B1. Real GDP growth	**257**	**240**	**224**	**210**	**194**	**182**	174	166	156	146	138
B2. Primary balance	**257**	**253**	**263**	**250**	**233**	**220**	**212**	**204**	**195**	**185**	176
B3. Exports	**257**	**306**	**381**	**358**	**334**	**314**	**301**	**286**	**268**	**250**	**234**
B4. Other flows 3/	**257**	**257**	**257**	**241**	**225**	**211**	**202**	**192**	**180**	168	158
B5. Depreciation	**257**	**240**	**203**	**190**	175	163	156	148	140	132	125
B6. Combination of B1-B5	**257**	**298**	**255**	**306**	**285**	**268**	**256**	**243**	**229**	**213**	**200**
C. Tailored Tests											
C1. Combined contingent liabilities	**257**	**261**	**247**	**233**	**218**	**205**	**198**	**191**	**183**	173	165
C2. Natural disaster	**257**	**261**	**250**	**240**	**228**	**220**	**216**	**213**	**208**	**202**	**198**
C3. Commodity price	**257**	**240**	**224**	**210**	**194**	**182**	174	166	156	146	138
C4. Market Financing	**257**	**240**	**224**	**210**	**195**	**183**	175	166	157	146	137
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt Service-to-Exports Ratio											
Baseline	**25**	**36**	**25**	**25**	**21**	**23**	**16**	**18**	**17**	**16**	**16**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**25**	**30**	**22**	**23**	**20**	**23**	**18**	**21**	**21**	**22**	**23**
B. Bound Tests											
B1. Real GDP growth	**25**	**36**	**25**	**25**	**21**	**23**	**16**	**18**	**17**	**16**	**16**
B2. Primary balance	**25**	**36**	**26**	**27**	**23**	**25**	**18**	**20**	**20**	**19**	**18**
B3. Exports	**25**	**43**	**37**	**38**	**33**	**36**	**25**	**29**	**29**	**27**	**26**
B4. Other flows 3/	**25**	**36**	**26**	**26**	**22**	**24**	**17**	**20**	**19**	**19**	**18**
B5. Depreciation	**25**	**36**	**25**	**24**	**20**	**23**	**15**	**17**	**16**	15	14
B6. Combination of B1-B5	**25**	**41**	**33**	**33**	**29**	**31**	**22**	**26**	**25**	**24**	**22**
C. Tailored Tests											
C1. Combined contingent liabilities	**25**	**36**	**26**	**26**	**22**	**24**	**17**	**19**	**18**	**17**	**17**
C2. Natural disaster	**25**	**37**	**26**	**26**	**23**	**25**	**18**	**20**	**19**	**19**	**18**
C3. Commodity price	**25**	**36**	**25**	**25**	**21**	**23**	**16**	**18**	**17**	**16**	**16**
C4. Market Financing	**25**	**36**	**25**	**25**	**21**	**24**	**16**	**21**	**21**	**16**	**15**
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt Service-to-Revenue Ratio											
Baseline	17	**28**	**20**	**20**	17	**19**	13	15	14	14	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	**24**	17	**18**	16	**19**	14	17	**18**	**19**	**20**
B. Bound Tests											
B1. Real GDP growth	17	**30**	**22**	**21**	**18**	**20**	14	16	16	15	15
B2. Primary balance	17	**28**	**21**	**21**	**19**	**21**	15	17	17	17	16
B3. Exports	17	**29**	**21**	**21**	**18**	**20**	15	17	17	17	16
B4. Other flows 3/	17	**28**	**20**	**21**	18	**20**	14	16	16	16	15
B5. Depreciation	17	**38**	**26**	**25**	**21**	**24**	17	**19**	17	17	16
B6. Combination of B1-B5	17	**29**	**21**	**22**	**19**	**21**	15	17	17	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	17	**28**	**20**	**20**	18	**20**	14	16	15	15	15
C2. Natural disaster	17	**28**	**20**	**20**	18	**20**	14	16	16	16	15
C3. Commodity price	17	**28**	**20**	**20**	17	**19**	13	15	14	14	14
C4. Market Financing	17	**28**	**20**	**20**	17	**19**	14	17	17	14	13
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Kenya: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	**68**	**67**	**64**	**61**	**59**	**57**	55	53	51	50	48
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**68**	**72**	**73**	**75**	**77**	**78**	**80**	**81**	**82**	**83**	**83**
B. Bound Tests											
B1. Real GDP growth	**68**	**70**	**72**	**70**	**69**	**68**	**68**	**67**	**67**	**66**	**66**
B2. Primary balance	**68**	**72**	**76**	**74**	**71**	**69**	**67**	**65**	**63**	**61**	**59**
B3. Exports	**68**	**69**	**70**	**68**	**65**	**63**	**61**	**59**	**56**	54	52
B4. Other flows 3/	**68**	**70**	**69**	**66**	**64**	**61**	**59**	**57**	**55**	53	51
B5. Depreciation	**68**	**70**	**65**	**61**	**57**	54	51	48	45	42	39
B6. Combination of B1-B5	**68**	**70**	**73**	**70**	**68**	**66**	**64**	**62**	**60**	**58**	**56**
C. Tailored Tests											
C1. Combined contingent liabilities	**68**	**76**	**72**	**70**	**67**	**65**	**63**	**61**	**59**	**57**	**55**
C2. Natural disaster	**68**	**79**	**77**	**76**	**75**	**74**	**74**	**74**	**73**	**73**	**72**
C3. Commodity price	**68**	**68**	**65**	**63**	**62**	**61**	**60**	**60**	**59**	**59**	**59**
C4. Market Financing	**68**	**67**	**64**	**61**	**59**	**57**	**55**	53	51	50	48
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	380	352	330	315	303	292	282	273	264	256	247
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	380	378	378	386	395	402	409	416	421	425	428
B. Bound Tests											
B1. Real GDP growth	380	369	369	360	356	351	348	345	343	340	338
B2. Primary balance	380	379	395	379	366	354	344	334	324	314	305
B3. Exports	380	364	363	347	334	322	312	301	290	280	269
B4. Other flows 3/	380	365	356	340	328	316	306	295	285	275	265
B5. Depreciation	380	367	336	313	294	276	260	245	230	216	203
B6. Combination of B1-B5	380	366	378	362	350	338	327	317	307	298	288
C. Tailored Tests											
C1. Combined contingent liabilities	380	397	373	358	345	334	323	313	304	294	285
C2. Natural disaster	380	415	399	391	386	382	380	377	375	373	371
C3. Commodity price	380	355	336	325	318	312	309	307	305	304	303
C4. Market Financing	380	352	330	315	304	293	283	274	264	255	247
Debt Service-to-Revenue Ratio											
Baseline	55	69	58	55	51	51	43	44	44	44	44
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	55	70	61	59	55	56	50	52	53	54	55
B. Bound Tests											
B1. Real GDP growth	55	72	64	62	58	59	51	54	55	56	57
B2. Primary balance	55	69	64	66	57	57	51	55	56	55	54
B3. Exports	55	69	58	57	52	52	45	46	46	46	46
B4. Other flows 3/	55	69	59	57	52	52	44	46	46	45	45
B5. Depreciation	55	66	58	55	50	51	43	43	43	42	41
B6. Combination of B1-B5	55	67	61	64	55	55	48	51	51	50	50
C. Tailored Tests											
C1. Combined contingent liabilities	55	69	68	60	54	54	50	52	51	51	48
C2. Natural disaster	55	75	70	66	61	62	56	59	60	61	61
C3. Commodity price	55	69	58	56	51	52	46	48	49	50	51
C4. Market Financing	55	69	58	56	51	51	44	47	47	43	43

Sources: Country authorities; and staff estimates and projections.

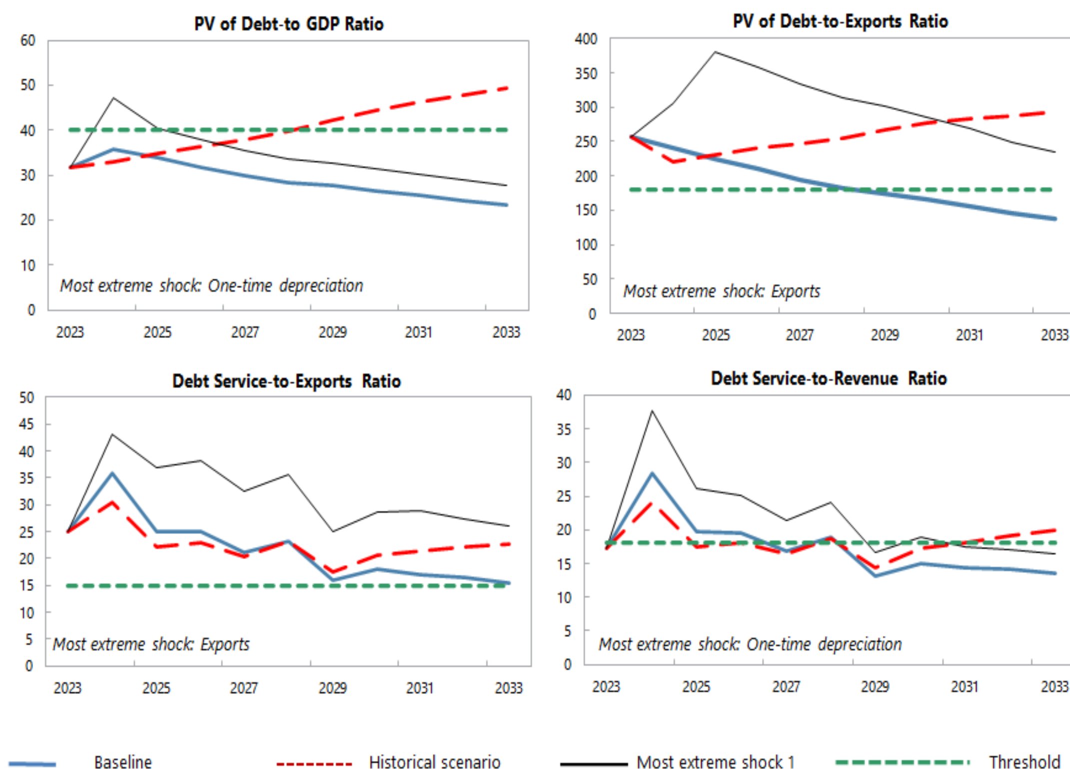
1/ A bold value indicates a breach of the benchmark.

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

3/ Includes official and private transfers and FDI.

Figure 1. Kenya: Indicators of Public and Publicity Guaranteed External Debt Under Alternatives Scenarios, 2023–33

(In percent)



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

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

Borrowing assumptions on additional financing needs resulting from the stress		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5

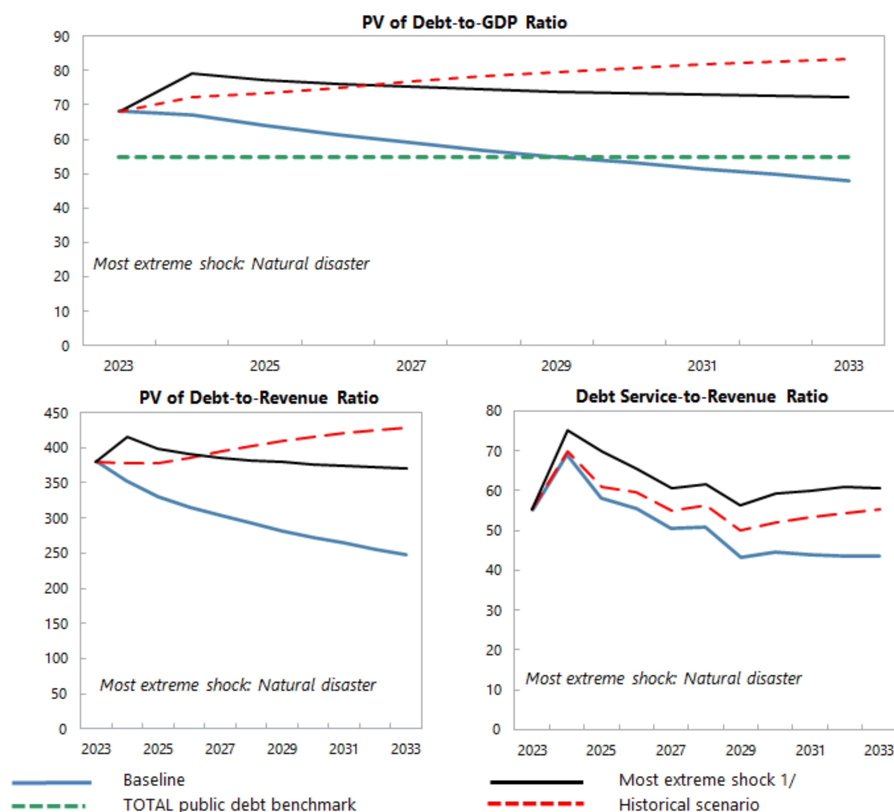
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Kenya: Indicators of Public Debt Under Alternative Scenarios, 2023–33

(In percent)



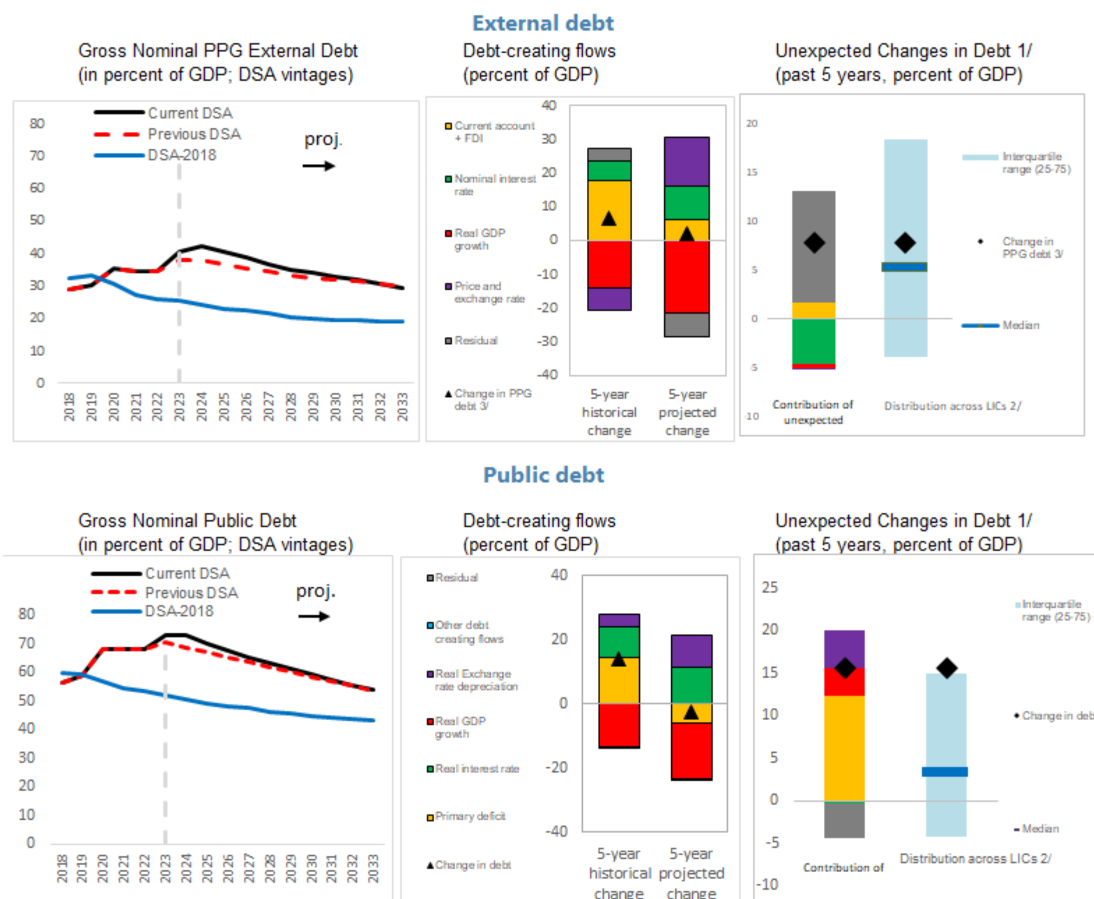
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	38%	38%
Domestic medium and long-term	47%	47%
Domestic short-term	16%	16%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.5%	5.5%
Avg. maturity (incl. grace period)	8	8
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	2.9%	2.9%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



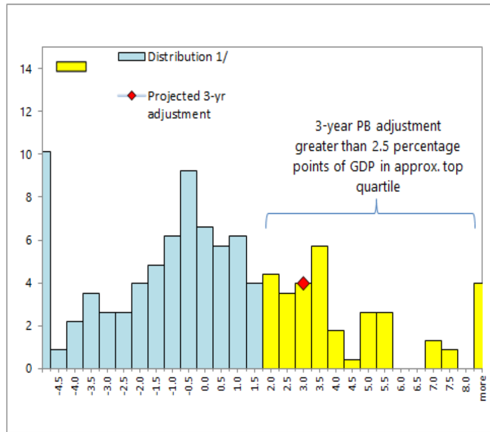
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

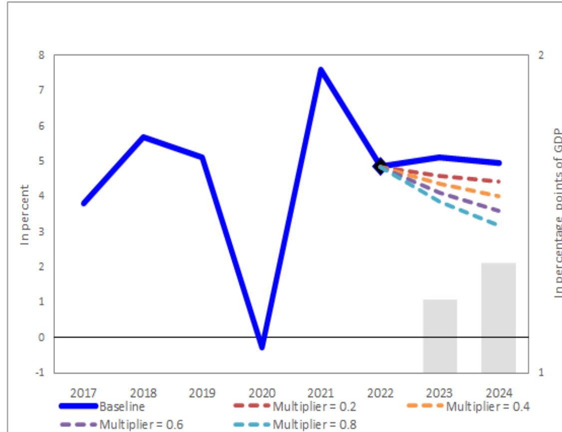
Figure 4. Kenya: Realism Tools

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



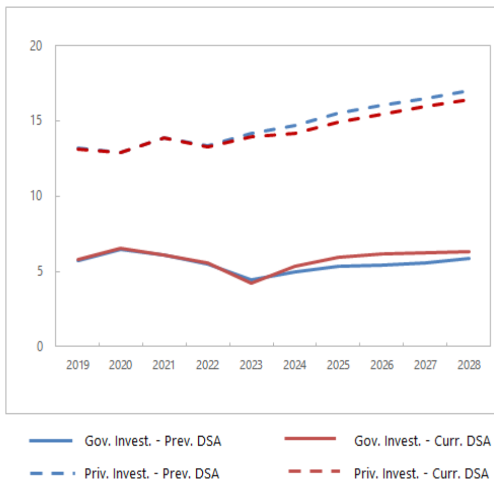
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

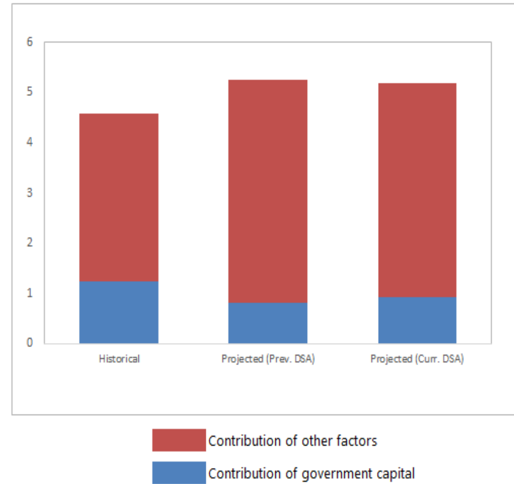
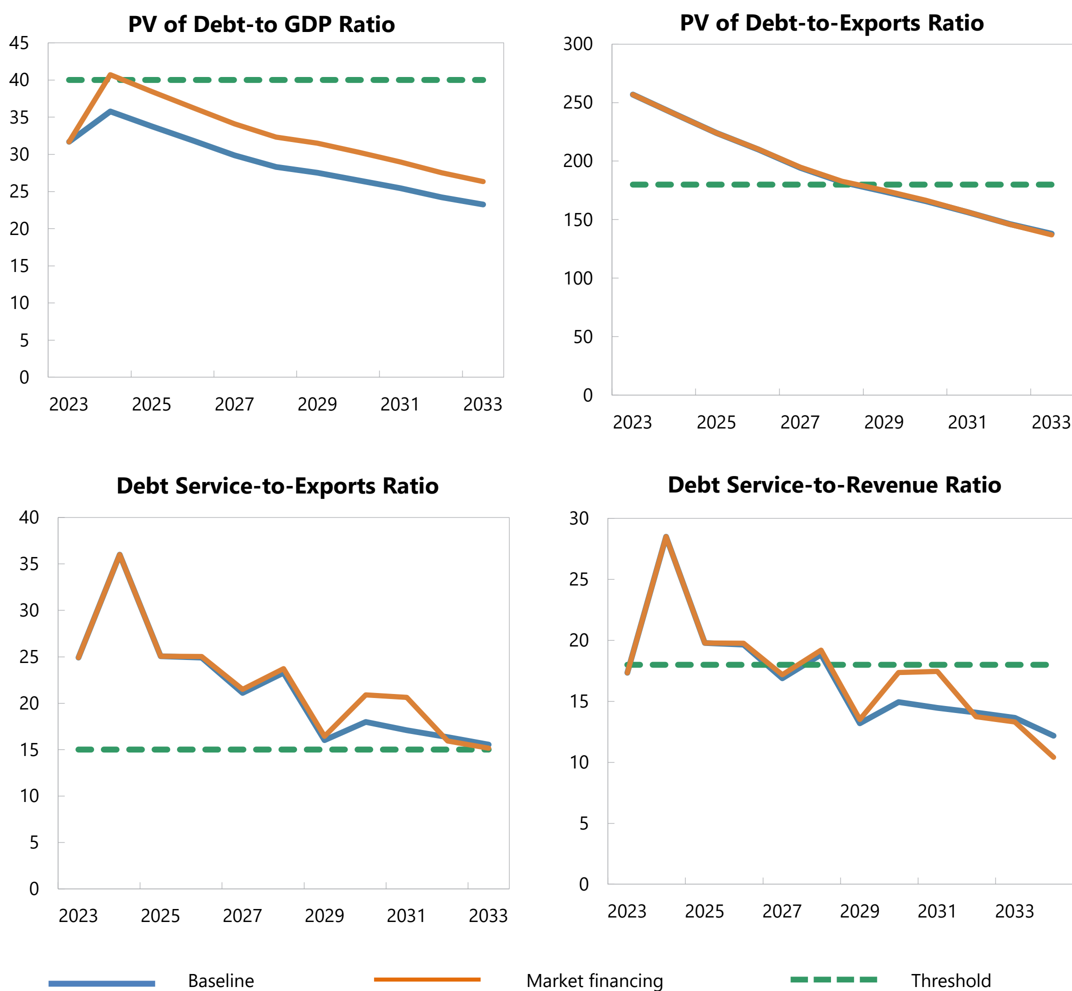


Figure 5. Kenya: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	12	589
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to data available as of December 20, 2023.



Sources: Country authorities; and staff estimates and projections.

INTERNATIONAL MONETARY FUND

KENYA

December 22, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SIXTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR AUGMENTATIONS OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, AND FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update to the RSF Assessment Letter—Kenya (dated June 28, 2023) highlights relevant changes that have occurred since the issuance of the Assessment Letter.

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

1. Kenya's vulnerability to climate change has in the recent months been underscored by the recent forecast of sustained rains for the short rainy season (October–December) with 38 counties likely to be affected by floods. The forecast shows that most parts of the country will experience above average rainfall and counties in the North-Eastern, Eastern and Coast regions will be most affected. The rainfall will be driven by the current El Nino conditions and the likelihood of diseases outbreak thus remains high. While El Niño is a natural climate phenomenon, recent studies have highlighted the increasing role of human activities in shaping its patterns.[1] The Kenya meteorological department expects that the ongoing rains are likely to remain enhanced until January 2024 and could last until April.[2] Temperatures are also expected to be warmer than above average in most parts of the country and cooler than average in parts of the Northeast and Coastal region. The above pattern points to the spatial variation in the impacts of climate change that vary according to the biophysical conditions across the country and depend on where population and economic activities are concentrated. Climate change has significant human costs on the poor and vulnerable including on human capital, labor

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[1] https://www.sciencedaily.com/releases/2023/10/231019151806.htm

[2] https://meteo.go.ke/forecast/monthly-forecast

productivity and jobs. These include (i) high diseases burden due to insufficient access to safe water and sanitation services and air pollution, (ii) displacement due to droughts and floods, and (iii) decline in labor productivity due to heat stress especially on outdoor activities. To cope with the multiple shocks, households reduce consumption, especially those in rural areas and the poorest who are the most vulnerable. Whole-of-economy measures are needed to address the potential risks and opportunities resulting from climate change, ranging from sector-specific actions to actions related to social protection, to climate finance and fiscal measures.

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

2. The Africa Climate Summit (ACS) was held in Nairobi in September 2023. The Government of Kenya signed the Nairobi Declaration, which stressed the importance of decarbonizing the global economy for equality and shared prosperity and called for investment to promote the sustainable use of Africa's natural assets for the continent's transition to low carbon development and contribution to global decarbonization. Other relevant issues in the Declaration include (i) a comprehensive and systemic response to the incipient debt crisis outside default frameworks to create the fiscal space that all developing countries need to finance development and climate action; and (ii) prioritizing and mainstreaming adaptation into development policymaking and planning, including in the context of national plans and building effective partnership between with other regions of the world to meet the needs for financial, technical, and technological support, and knowledge sharing for climate change adaptation. The third National Climate Change Action Plan (NCCAP) (2023–27) and the National Long-term Low Emissions Development Strategy (LTS) (2022–50) were also launched during the ACS.[3] The NCCAP prioritizes a range of adaptation and mitigation actions in specific sectors, such as energy where it presents development of new renewables including geothermal, solar and wind plus new biofuel plants with private sector engagement by 2028, among other things. The LTS sets out the optimum approach and strategies for achieving the country's long-term vision and objectives as well as its medium-term commitments and targets set out in the NDC and lays out priority interventions and actions in all key sectors, including an implementation and monitoring plan.

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

3. Kenya is working to implement the main elements of the Nairobi Declaration. Examples of implementation include the Africa Green Investment (AGI) initiative, launched at the recent COP28 in Dubai, the National Landscape and Ecosystem Restoration Strategy (NLERS), and the Green Fiscal Incentive Policy Framework (GFIPF). The AGI initiative presents countries' visions and the policy frameworks to implement the Nairobi Declaration and will be receiving support from the United Arab Emirates. The AGI initiative issues a call-to-action for global stakeholders to participate in fast-tracking green industrialization of Africa. The NLERS aims to operationalize the commitment made in the declaration to strengthen actions to halt and reverse biodiversity loss, deforestation, desertification, as well to restore degraded lands to achieve land degradation neutrality. In addition, the government is refining its

[3] https://ndcpartnership.org/news/kenya-unveils-comprehensive-legal-framework-accelerate-climate-action

GFIPF. The framework raises several aspirations including sector specific fiscal actions that span the agriculture, forestry, water, energy (including clean cooking) and waste management fields. It also includes the proposal of a carbon tax and green investment bank. In addition, it provides a sense of the directions the country is considering and the type of technical support that will be critical to ensure the final framework is operational. In September 2023, Kenya enacted the Climate Change (Amendment) Act, 2023. The act provides for the establishment of a carbon registry that is publicly accessible. It would register information relating to carbon credit projects and the amount of carbon credits issued or transferred from Kenya. The intent is for the carbon registry to help increase climate financing activities in the country by providing investors with greater transparency on the carbon markets. A Designated National Authority, as established by the act, will be managing the registry. In addition, the government has also drafted the carbon markets regulations. These are currently being consulted and are expected to be ratified by early 2024. Capacity building and technical assistance will be important complements to ensure effective implementation and operationalization of the registry and the carbon markets regulations.

D. Other Challenges and Opportunities

4. Many of the challenges identified in the original assessment letter of June 2023 remain today. Central among these challenges is the absence of a robust coordination mechanism for steering climate positive development. The Kenya Country Climate and Development Report (CCDR), released in November 2023, recommends operationalization of a mechanism for inter- and intra-coordination among national, county and municipal government (vertical and horizontal coordination).[4] It also calls for clarifying the institutional mandates on climate finance and carbon markets and operationalizing the National Climate Change Fund. Also identified in the Kenya CCDR were the following enabling policy and institutional measures for mobilizing climate finance: (i) enhancing national financial and institutional capacity to mobilize climate finance; (ii) conducting climate risk management of the financial sector; (iii) developing a roadmap for greening financial sector; (iv) developing data infrastructure to inform green finance decision; (v) prioritizing a portfolio of investments considering climate/biodiversity targets, macro-fiscal situation, debt management strategy, and access to capital markets; (vi) expanding public-private-partnerships for priority investment; (vii) optimizing use of grant and concessional finance to catalyze private sector investments; (viii) initiating a program to pilot test and scale innovative instruments.

E. World Bank Engagement

5. The World Bank engagements mentioned in the June 2023 Assessment Letter are still ongoing. The Kenya CCDR launch was attended by three cabinet secretaries. This underscores the importance of the climate agenda for the government for which without climate action, the economy could face setbacks. The report shows that under a business-as-usual scenario, inaction could dampen real GDP by 1.3 to 2.4 percent by 2023 and 3.6 to 7.3 percent by 2050 under different climate futures compared to the baseline. Action is therefore important to avoid setting back Kenya's aspiration of attaining upper middle-income status. In terms of investment financing, the Second Additional Financing for Kenya Water Security and Climate Resilience Project (P181345) was approved in FY24. It has over 20 percent climate co-benefits.

[4] The Kenya CCDR is available at https://openknowledge.worldbank.org/handle/10986/40572>.

RSF Assessment Letter–Kenya

June 28, 2023

A. Country Vulnerability to Climate Change Including Human, Social, and Economic Costs

1. Kenya is vulnerable to climate-induced natural disasters. The Notre Dame Global Adaptation Initiative (ND-GAIN) ranks Kenya as the 39th most vulnerable country to climate change (2020). A range of climate models forecast that Kenya's mean temperature will increase, with temperature increasing relatively more under a scenario in which there is no global decarbonization effort. Precipitation, in contrast, is forecast to fluctuate significantly, with the relative change in mean precipitation varying depending on the model. Climate change impacts vary spatially according to the biophysical conditions across the country and depend on where population and economic activities are concentrated.

2. Climate change is already a source of significant risk for Kenya. Estimates suggest that more than 70 percent of natural disasters in Kenya are attributable to extreme climatic events. These include major droughts that occur every ten years, and moderate droughts or floods every three to four years. The repeating patterns of floods and droughts in the country have had devastating socio-economic impacts. For example, the 2008–11 drought, is estimated to have cost Kenya US$12.1 billion, including US$0.8 billion from the destruction of physical and durable assets and US$11.3 billion from losses across all sectors of the economy (Kenya Post Disaster Needs Assessment 2008–11 Drought). Droughts have increased in frequency affecting more people with an estimated economic impact of 8 percent of GDP every five years. While droughts are often nationwide, the most severe impacts are felt in the country's highly arid zones, which encompass many of the poorest counties. Floods and droughts have resulted in episodes of acute food insecurity and loos of assets. Although Kenya's economy has grown rapidly and the incidence of poverty trending downward, one third of Kenya's population still lives under the international poverty line. This highlights that the country's development path toward reducing poverty and achieving prosperity will have to mitigate significant climate risks.

3. Kenya contributes less than 0.1 percent of global greenhouse gas emissions annually. In 1995, GHG emissions were estimated 56.8MTCO2e and increased to 93.7MT CO2e in 2015 and is projected, in Kenya's draft Long-Term Strategy, to reach 300MTCO2e by 2050 in a scenario of no intervention. Agriculture is the leading source of emissions (40 percent) due largely to enteric fermentation, followed by land use and land use change and forests (38 percent), transport (12 percent), energy (excluding transport) (6 percent), industrial processes (3 percent), waste (3 percent) and electricity (1 percent).

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

4. Kenya's National Determined Contribution (NDC) embodies ambitious adaptation goals. With respect to adaptation, the NDC identifies water, agriculture, land use, forestry, energy, health, and infrastructure as priority sectors to focus adaptation efforts. the NDC also aims to ensure a climate-resilient

society through mainstreaming climate change adaptation in the Medium-Term Plans (MTPs) and County Integrated Development Plans (CIDPs).

5. **Kenya has developed a strong climate-related policy framework to deliver on its NDC.** The main elements of this framework are: (i) the National Climate Change Response Strategy (2010), (ii) the National Climate Change Action Plans, (iii) the National Drought Management Authority Act (2016), (iv) the Green Economy Strategy and Implementation Plan (2016-2030), (v) the National Adaptation Plan (2017), and (v) the National Climate Change Act (2016). The Climate Change Act provides a framework for promoting climate resilient and low carbon economic development and establishes the key institutions in charge of monitoring and implementing the climate change agenda. The act also describes the measures and mechanisms that shall be included in the National Climate Change Actions Plan, whose overarching objective is to pave the way for sustainable, low-carbon, climate-resilient development.

6. **Kenya is well placed to further strengthen the institutional framework for resilience.** Kenya ranks 154th out of 181 countries in terms of readiness to leverage investments and convert them to adaptation actions (ND-GAIN, 2020), which highlights the scope of challenges that Kenya needs to address. The main focus areas for further institutional strengthening include: i) improved fiscal financing for adaptation projects (including through operationalization of the Climate Change Council and the National Climate Change Fund) with a focus on sectors that are underfunded, such as agriculture, forestry and land use, transport, and water management; ii) improved alignment between the MTPs and CIDPs regarding the mainstreaming of the climate agenda to ensure integration between sectoral goals and county development priorities; iii) understanding better the risk exposure of local communities, engaging them in strengthening resilience, making adaptation a core component of CIDPs, and prioritizing the resilience of local communities in national and county-level development planning and implementation; iv) improving coordination arrangements to integrate the National Environmental Management Authority and the National Drought Management Authority into the consultation and coordination process, and eliminating overlaps in mandates across entities and levels of government (such as significant overlap in mandates and duplication of efforts between regulatory state-owned enterprises in key climate-related sectors, which hampers the effectiveness of the climate change strategies).

7. **Going forward, several actions that are feasible and can generate relatively more climate and development benefits in short- to medium-term warrant prioritization.** Actions related to agricultural productivity, expansion of irrigation, climate-proofing critical infrastructure links, health, waste management, forest resource management and restoration are expected to substantially support the country's resilient growth and development objectives.

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

8. **The updated NDC targets a 32 percent reduction in GHG emissions by 2030 relative to a business-as-usual scenario of 143MtCO2e, compared to 30 percent in the first NDC.** It identifies energy, industrial processes and product use, agriculture, forestry, waste, and land use as key sectors where mitigation efforts will be focused. Overall, estimates of Kenya's carbon intensity are lower than that of many other countries in sub-Saharan Africa and have been relatively constant between 2010 and 2019. Kenya is

well on its way to achieving a fully green grid by 2030. It already has a diversified, low-carbon power generation mix, with about 93 percent of electricity being generated from clean sources, including geothermal, hydro, and wind. Installed power generation capacity currently stands at 3,121MW compared to peak demand of 2,128 MW. Fossil fuel-based generation (thermal capacity) has been declining from about a third of the installed capacity (contributing to about 20 percent of generation in 2015) to about a fifth of the installed capacity and contributing only to around 10 percent of generation. Development of geothermal, wind, and solar power generation has enhanced energy security and significantly reduced the weather-induced supply shortages typical in systems with a large share of hydro. Kenya is now also connected to regional hydropower resources with the commissioning of the Kenya-Ethiopia Interconnector, giving impetus to regional energy trading through the Eastern Africa Power Pool. At current costs Kenya has a unique opportunity to meet its electricity needs almost entirely from green energy sources and at affordable costs soon which significantly contributes to maintaining a low-carbon development path.

9. Going forward, the bulk of Kenya's emissions reduction target under its NDC will be achieved by increasing forest cover. The government has introduced a program to increase tree cover to 10.6 million hectares, up from the current level of 7.2 million hectares. Based on an analysis of restoration potential, this new target is achievable and could position Kenya to not only meet its NDC commitments, but also use landscape restoration to move closer to a net-zero target and potentially offer carbon credits on international markets. Notwithstanding these benefits, several key measures will need to be in place to ensure that forest restoration results in sustainable gains, including improving agriculture productivity, lowering demand for biomass-based energy for cooking, boosting security of tenure, and putting in place incentives and mobilizing financing for these activities including via carbon markets. With respect to biomass-based energy, a more concerted and accelerated effort is needed to transition households to more sustainably produced and cleaner fuel options. Kenya's reforestation efforts also require improved agricultural practices as conversion of forests for agricultural expansion and livestock grazing significantly contribute to forest degradation. Integration of climate considerations into the implementation of the Agricultural Sector Transformation and Growth Strategy 2019–29 can augment the agriculture sector's resilience and productivity while contributing to Kenya's emissions reduction target.

10. Ensuring that emerging and expanding cities maintain a low-carbon footprint is another priority in Kenya's mitigation agenda. Kenya would benefit from developing a comprehensive enabling national urban transport policy framework that can define the government's role in public transport management, address a clear direction to manage urban mobility in the country, and guide the financing framework for urban mobility. Furthermore, a low-carbon development path should be well articulated in the updated National Integrated Transport Policy. Availability of green and reliable public transport system and safe and secured walking environment in urban areas will have a strong impact on GHG reductions. Low-carbon transport system in urban areas should prioritize developing an integrated multi-modal public transport system and network/ improving public transport and non-motorized transport (sidewalk and bicycle lane), shifting from a car-centric to people-centric approach. Adopting battery electric vehicles (BEV) in conjunction with the development of mass rapid transit will contribute significantly to Kenya's decarbonization agenda. In addition to the transport sector, efforts to apply low-carbon approaches in supplying affordable housing in urban areas is another priority. Importantly, more resilient, and greener

cities will require high levels of human, technical and financial resources and should ensure they institutionalize knowledge and support participatory governance.

D. Other Challenges and Opportunities

11. Strengthening Policy and Institutional Structures for Addressing Climate Change. Kenya has developed a strong climate policy framework, including a Climate Change Act. Institutionalizing this effort requires fully operationalizing the climate policy planning and implementation framework and making the existing institutional coordination mechanisms fully functional. Key actions for operationalizing a whole-of-government approach to implementing the climate policy framework are: (i) incorporate the NDC targets into the MTPs, sectoral plans, and urban plans; (ii) provide guidance in Budget Circulars for aligning proposed programs and projects with the NDC targets; and (iii) streamline and strengthen the monitoring and evaluation of climate targets. Advancing implementation of the established institutional coordination platforms to address implementation challenges related to limited horizontal (between government agencies) and vertical coordination mechanisms (particularly for sectors decentralized as part of the Constitution) would benefit from: (i) operationalizing the National Climate Change Council and Climate Change Units and (ii) elaborating the governance, resource mobilization, and investment arrangements for the National Climate Change Fund and the County Climate Change Fund.

12. Climate change as a cross-cutting public finance issue. There has been progress in aligning the budget with climate change strategies and providing information on climate-related objectives, but specific climate targets and indicators could be further incorporated into the performance contracts of public sector budget units and public entities in charge of implementing climate-related programs. More work is needed on systems of internal controls to ensure compliance with climate-related expenditure, particularly in the Integrated Financial Management Information System. Although the public investment management framework requires environmental and social impact assessments for public investment projects, it does not integrate provisions for climate disaster risk screening. And although the authorities are developing a Sustainable Procurement Framework, it has not yet been integrated into procurement regulations. The public procurement framework does not include climate-responsive procurement guidelines and principles, and there is no comprehensive data to inform understanding the extent to which public procurement advances or impacts climate and sustainability objectives.

13. Accessing carbon markets for expanded green finance. Several sectors of Kenya's economy could generate credits for carbon markets, including forestry, blue economy, agriculture, buildings, energy, and transport. Further, enabling carbon credits of high quality could favorably position Kenya in carbon markets. At COP27, Kenya announced its commitment to scaling voluntary carbon markets. Kenya is one of the African countries expected to benefit from the new Africa Carbon Markets Initiative, which aims to support the rapid growth of carbon credit generation and associated jobs. Bilateral carbon trades under the Paris Agreement could potentially provide substantial revenues for Kenya, particularly if prices reflect the opportunity cost of additional mitigation action. Through a recent amendment to the Climate Change Act, Kenya has outlined a framework for decision-making related to participation in carbon markets. Capitalizing on carbon markets, however, will require the Government of Kenya to finalize the formulation of a robust legal framework to provide the necessary legal basis for carbon markets and to operationalize the legislation. In parallel, to benefit from the potential in carbon markets, Kenya will need to ensure the

environmental integrity of its carbon credits. This will require development of the necessary infrastructure for measurement, reporting, and verification systems and registry infrastructure.

E. World Bank Engagement

14. The World Bank has an active portfolio of financing and technical assistance to help Kenya in implementing its climate commitments. The climate elements in the World Bank's portfolio span a range of key sectors from agriculture to blue economy, energy, urbanization, water management, and social protection. The World Bank is providing financing through a mix of project finance and budget support. The World Bank is also supporting the strengthening of the government program that enables devolution of climate action via the Financing Locally Led Climate Action Program for Results.

15. There are several other projects under preparation that include significant climate elements. This includes projects in the transport sector, energy, landscape restoration, and health. The World Bank is providing analytical and technical assistance of a range of climate change related issues including on greening the PPP pipeline, carbon markets and climate finance, landscape restoration, irrigation expansion, green jobs, greening housing development, etc.

16. The World Bank is also finalizing the Country Climate and Development Report for Kenya. The report integrates climate change and development considerations to help to prioritize the most impactful actions for boosting adaptation and maintain low emissions, while delivering on broader development goals.

Table 1. Kenya: Active Operations Producing More Than 20 Percent Climate Co-Benefits

- Kenya Urban Support Program
- Kenya: Off-grid Solar Access Project for Underserved Counties
- KenGen Guarantee Program
- Marine Fisheries and Socio-Economic Development Project
- Kenya Social and Economic Inclusion Project
- E-National Ag. and Rural Inclusive Grow
- Kenya-Climate Smart Agriculture Project
- Second Kenya Informal Settlements Improvement Project
- Accelerating Reforms for an Inclusive and Resilient Recovery DPF
- Financing Locally Led Climate Action Program
- Additional Financing for Coastal Region Water Security and Climate Resilience Project
- Accelerating Reforms for an Inclusive and Resilient Recovery DPF 2
- National Agricultural Value Chain Development Project (NAVCDP)

INTERNATIONAL MONETARY FUND

KENYA

ASSESSMENT OF FINANCIAL RISKS TO THE FUND

January 5, 2024

Approved By
Andreas Bauer (FIN) and Eugenio Cerutti (SPR)

Prepared by the Finance and Strategy, Policy, and Review Departments.

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INTRODUCTION

1. The Kenyan authorities have requested an augmentation of access under the EFF/ECF arrangements equivalent to 130.3 percent of quota (SDR 707.27 million).

- **Original arrangements**. In April 2021, the Executive Board of the IMF approved 38-month arrangements under the ECF and the EFF for Kenya in an amount equivalent to SDR 1.655 billion (305 percent of quota), of which 230 percent of quota under the EFF arrangement and 75 percent of quota under the ECF arrangement. The program aims at reducing debt vulnerabilities through a multi-year fiscal consolidation effort centered on raising tax revenues, advancing the structural reform and governance agenda, and strengthening the monetary policy framework and support financial stability.

- **Earlier augmentations.** The Executive Board approved an augmentation of SDR 162.84 million (30 percent of quota) under the ECF arrangement at the fourth EFF/ECF reviews in December 2022 and a blended augmentation of SDR 407.10 million (75 percent of quota total with 43.5 percent of quota under the EFF arrangement and 31.5 percent of quota under the ECF arrangement) at the fifth EFF/ECF review in July 2023, bringing total access under the EFF/ECF arrangements to SDR 2.225 billion (410 percent of quota total with 273.5 percent of quota under the EFF arrangement and 136.5 of quota under the ECF arrangement). With the fifth review, the Board also approved an extension of the EFF/ECF arrangements from 38 to 48 months to allow sufficient time to implement the authorities' reform agenda.

- **RSF arrangement**. In July 2023, together with the fifth review of the EFF/ECF arrangements, the Executive Board approved Kenya's request for an arrangement under the RSF of SDR 407.1 million (75 percent of quota) to support the country's efforts to build resilience to climate change.

- **Current request.** The latest augmentation, which is being requested in the context of the sixth review of the EFF/ECF arrangements, consists of an increase in access of 121.8 percent of quota (SDR 661.13 million) under the EFF arrangement and 8.5 percent of quota (SDR 46.14 million) under the ECF arrangement (Table 1a). Remaining access under the augmented arrangement is frontloaded. One-third of the augmentation is to be disbursed upon completion of the sixth review and two-thirds upon completion of the seventh review, while access upon completion of the eighth and ninth reviews would remain unchanged. The proposed augmentation and phasing reflect additional balance of payments needs that have emerged, primarily due to Kenya's inability under prevailing global bond market conditions to roll over a US$2 billion Eurobond maturing in June 2024 at reasonable cost. The authorities are seeking additional concessional (including from the World Bank) and commercial (syndicated loans) financing and intend to cover the remainder of the financing gap through the augmentation of access under the EFF/ECF arrangements. The Fund's share of the additional financing gap over 2024–25 since the fifth review would be 45 percent, as compared to a 39 percent share in Kenya's cumulative financing gap over the life of the program.

2. The proposed augmentation would trigger exceptional access (EA) under the General Resources Account (GRA) and Policy Safeguards for High Combined Credit (PS-HCC). The current proposed augmentation under the EFF arrangement exceeds the normal annual GRA access limit of 200 percent of quota. PS-HCC will be triggered as the projected combined annual access and cumulative access from the GRA and the Poverty Reduction and Growth Trust (PRGT) would exceed their respective thresholds of 200 percent and 600 percent of quota.

3. This note assesses the financial implications of the proposed augmentation for the Fund. The assessment is provided in accordance with the policy on EA.[1] Since this is a blended arrangement and PS-HCC is triggered, the note also discusses the impact on PRGT resources (¶18, ¶22)[2].

PAST FUND ARRANGEMENTS

4. Kenya has a long history of Fund arrangements and has benefited from Fund financial support in recent years (Table 2)**.** In May 2020, the Executive Board approved a disbursement of SDR 542.8 million (100 percent of quota) under the Rapid Credit Facility (RCF) to help the country meet its urgent balance of payments need stemming from the outbreak of the COVID-19 pandemic[3]. The RCF disbursement allowed the Kenyan authorities to maintain an adequate level of international reserves and contributed to budget financing to respond to the effects of the pandemic. The Fund continued to provide support during the pandemic with the subsequent approval of the current EFF/ECF arrangements in April 2021.

5. Prior to the 2020 RCF disbursement, Kenya had two consecutive precautionary Stand-by arrangements approved in 2015 and 2016. Program implementation under these arrangements was mixed. In February 2015, the Executive Board approved a SDR 352.8 million (130 percent of quota) 12-month Stand-by Arrangement (SBA) and a SDR 135.7 million (50 percent of quota) 12-month arrangement under the Stand-by Credit Facility (SCF). The first review was concluded with a delay in September 2015 and in January 2016 the program was extended for about a month (through March 15, 2016) to provide time for the authorities to finalize implementing the fiscal measures for FY2015/16 and the structural measures under the program. The second review was concluded on time and was combined with the request for a new 24-month precautionary arrangements. Thus, in March 2016, the Executive Board approved a new SDR 709.3 million (130.7 percent of quota) 24-month SBA and a SDR 354.6 million (65.3 percent of quota) 24-

[1] See paragraph 5 of Decision No 14064-(08/18), adopted 2/22/2008, as amended, and The Acting Chair's Summing Up of the Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy (3/5/03).

[2] As is standard for these risk assessment supplements, indicators of debt, Fund credit outstanding, and obligations to the Fund for Kenya are generally compared to GRA countries. For specific comparisons with PRGT-eligible countries, see ¶14, Figure 6 and Figure 8.

[3] RCF repayments begin in 2025 (SDR 54 million) and the loan is scheduled to be fully repaid by 2030.

month SCF. The first review was concluded with a delay in January 2017, but no subsequent reviews were completed, despite a six-month extension (through September 2018), and the arrangements expired in September 2018. The 2015 and 2016 arrangements were always treated as precautionary and no funds were disbursed.

6. Kenya also had a series of ECF arrangements between 1989 and 2011.[4] In January 2011, the Executive Board approved an ECF arrangement in the amount of SDR 325.7 million (120 percent of quota) which was augmented to SDR 488.5 million (180 percent of quota) at the time of the second review and was fully disbursed upon completion of all reviews. The last principal repayment arising from this arrangement was made as scheduled in December 2023.[5] Five earlier ECF arrangements were approved by the Executive Board in 2003, 2000, 1996, 1993 and 1989, respectively (Table 2).

DEBT SITUATION AND OUTLOOK

7. Kenya's public debt has increased markedly over the past decade. After remaining relatively stable below 40 percent of GDP between 2007 and 2013, Kenya's public debt started to increase, to 60 percent of GDP by 2019 and is projected to reach 73 percent of GDP by end-2023. The share of external debt in total public debt has increased somewhat in recent years, from 51 percent in 2019 to an estimated 55 percent in 2023 (40 percent of GDP).[6] At end-2023, debt to multilaterals is estimated to account for about half of total public external debt. Of the total multilateral debt, 65 percent is owed to the World Bank, 18 percent to the AfDB, 14 percent to the IMF (2.5 percent of GDP) and the rest to other institutions. The other half of total public external debt is split equally between official creditors—mainly with non-Paris Club members—and private creditors, of which most in the form of bonds (Table 3). Compared with other GRA exceptional access borrowers, both total external debt and public external debt as a share of GDP are somewhat above the median (Figure 1).

8. Public debt is assessed to be sustainable but Kenya remains at high risk of debt distress.[7] The baseline PV of overall debt to GDP falls below the threshold of 55 percent in 2029 while the PV of external debt remains below the threshold of 40 percent throughout the projection period. The debt sustainability analysis suggests that the overall debt is particularly susceptible to primary balance and natural disaster shocks over the medium term, while external debt is vulnerable to export and exchange rate shocks. An increase in borrowing costs would worsen the outlook for debt sustainability. Kenya is facing challenges in rolling over a June 2024 Eurobond maturity in the current context of unfavorable external financing conditions, which are limiting access to

[4] Arrangements prior to the inception of the ECF in 2009 are counted as equivalent to ECF arrangements for the purpose of this paragraph.

[5] The last disbursement was in December 2013 upon completion of the sixth and final review. The repayment schedule for an ECF arrangement has a grace period of 5 ½ years and a final maturity of 10 years.

[6] Classification of debt is done on currency basis under the Debt Sustainability Analysis.

[7] See the debt sustainability analysis (DSA) included in this staff report.

international bond markets for frontier market economies. Given the current financial environment, in 2024, Kenya is expected to continue to rely primarily on multilateral loans to cover its external financing needs.

9. Kenya's total external debt service burden will peak in 2024. Total external debt service would peak at 6 percent of GDP in 2024, before declining to an average of 4 percent of GDP per year during 2025-29. In terms of exports of goods and services, total external debt service would peak at 42 percent in 2024 and then decline to an average of 27 percent per year during 2025-29. The ratio of external debt service to exports of goods and services is somewhat below the median for other GRA exceptional access cases (Figure 1). Obligations due to the Fund in 2024-29 average 0.4 percent of GDP per year, peaking in 2029 at 0.7 percent of GDP, when repayments under the 2020 RCF loan and 2021 EFF/ECF arrangements will total SDR 582 million. Since Kenya's GRA credit outstanding to the Fund would exceed 187.5 percent of quota upon completion of the sixth review, and would remain above that threshold through late 2030, Kenya would be subject to surcharges amounting to SDR 117 million in 2024-31 if all purchases are made as scheduled.

FINANCIAL IMPLICATIONS OF THE PROPOSED AUGMENTATION FOR THE FUND

10. The IMF's credit outstanding to Kenya at end-December 2023 was SDR 2.1 billion. The origins of this exposure are purchases of SDR 980.8 million under the 2021 EFF arrangement, disbursements of SDR 535.3 million under the 2021 ECF arrangement, and SDR 542.8 million under the 2020 RCF loan. Upon completion of the sixth review—considering the proposed augmentation—and the first disbursement under the RSF, Kenya's credit outstanding to the IMF would increase to SDR 2.6 billion by end-January 2024. Repurchases under the EFF arrangement and repayments under the RCF loan will begin in 2025, while repayments under the ECF arrangement and the RSF arrangement will being in 2026 and 2034 respectively. Repurchases and repayments amount to SDR 82.6 million in 2025 and SDR 204.0 million in 2026.

11. The proposed augmentation under the EFF arrangement would increase the Fund's exposure to Kenya.

- After the scheduled purchase under the EFF arrangement upon completion of the sixth review, Kenya would become the Fund's 12th largest GRA borrower with its credit outstanding accounting for 1.4 percent of total Fund credit (Figure 7).
- Credit concentration measured by the Fund's exposure to the top five borrowers would decline slightly from 68.6 percent to 68.3 percent following the purchase upon completion of Kenya's sixth review.
- The Fund's current level of precautionary balances (PB) would continue to comfortably exceed the credit exposure to Kenya, should risks to repayment capacity materialize. Fund GRA exposure to Kenya after the EFF purchase upon completion of the sixth review would amount to

only 5.7 percent of PBs (Table 6), rising to 9.1 percent when GRA credit to Kenya peaks (assuming the current level of precautionary balances at end-July 2023).

12. Kenya's EFF access following the proposed augmentation would remain moderate relative to comparators. The median access for other GRA exceptional access arrangements since 2008 is close to 730 percent of quota (Figure 2). The proposed access for Kenya under the EFF arrangement considering the augmentation is 395.3 percent of quota. Adding the proposed access under the ECF arrangement (145 percent of quota), total access under the current arrangements would be 540.3 percent of quota.[8]

13. The Fund's total exposure to Kenya—including the RCF, ECF and RSF—would peak at 715 percent of quota during March-September 2025 assuming all proposed purchases and disbursements are made according to schedule (Figure 3). The Fund's exposure to Kenya would increase from 378 percent of quota at end-December 2023 to 472 percent of quota at end-January 2024 upon completion of the sixth review under the EFF/ECF arrangements and the first review under the RSF arrangement. The peak of Kenya's credit outstanding to the Fund would be lower than the median of other GRA exceptional access cases (Figure 4). Excluding the RSF, Kenya's credit outstanding to the Fund would peak at 640 percent of quota and remain above 600 percent until October 2026. Considering credit outstanding in the GRA only (EFF arrangement), Kenya's credit outstanding would peak at 395.3 percent of quota (Figure 4).

14. Kenya's peak Fund exposure and peak payments obligation metrics—including PRGT and RSF—would remain below or close to other GRA exceptional access cases (Figure 5). Kenya's peak exposure in terms of GDP and of total external debt are below the median of other GRA exceptional access cases, while the peak exposure in terms of international reserves is somewhat above the median. Peak debt service to the Fund in terms of exports of goods and services and of total external debt service also are below the median of other exceptional access cases, while Kenya's peak total external debt service in percent of goods and services is marginally above the median.

15. Many of Kenya's capacity to repay indicators would exceed the corresponding benchmarks that are applicable to PRGT-eligible countries (Figure 6).[9] With the proposed augmentation, total credit outstanding (excluding the RSF) is projected to peak at 4.5 percent of GDP and 55.2 percent of gross international reserves in 2024, both exceeding the 75th percentile of the Fund's past Upper Credit Tranche (UCT)-quality arrangements for LICs. Non-RSF debt service to the Fund would peak by 2029 at 4.1 percent of exports and 3.4 percent of fiscal revenues, both well above the top quartile of past IMF UCT-quality arrangements for LICs. These relatively elevated levels of scheduled debt service to the Fund may pose risks to the capacity to repay over the

[8] In addition, Kenya has access under the RSF of 75 percent of quota but the exceptional access frameworks that apply to GRA and PRGT credit do not apply to RST financing.

[9] See PRGT—Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay.

medium term. Risks are mitigated by Kenya's continued access to multilateral financing on concessional terms and a strong track record of servicing debts.

16. The proposed augmentation under the EFF arrangement would have a small impact on the Fund's liquidity position. With the proposed augmentation under the EFF arrangement, the Fund's Forward Commitment Capacity (FCC) would decline by 0.4 percent from its level of SDR 163.6 billion as of December 6, 2023 (Table 6). Since Kenya is not a member of the Financial Transactions Plan (FTP), there would be no additional second-round impact on the FCC.

17. Income risks would be limited. Fund income from Kenya is projected to account for about 2 percent of total lending income in FY2024, based on a desk survey scenario for projected program demand as of September 2023. If Kenya were to accrue arrears on charges and surcharges, the Fund's burden sharing mechanism would be sufficient to cover such arrears. Total GRA charges and fees for Kenya are projected at SDR 116 million for 2024, accounting for 8.6 percent of the Fund's current residual burden-sharing capacity of SDR 1.35 billion (as of December 6, 2023).

18. The augmentation has a limited impact on PRGT subsidy and loan resources but implies a further increase of PRGT credit risk. The impact on subsidy and loan resources would be small, reflecting the small size of the proposed ECF arrangement augmentation (SDR 46.14 million or 8.5 percent of quota). However, Kenya is already the third largest PRGT borrower, with PRGT credit outstanding at about SDR 1.1 billion at end-November 2023 (about 6 percent of total PRGT credit outstanding; Figure 8). Kenya's existing and prospective outstanding loans from the PRGT are significant compared to PRGT reserves, amounting to about one-fourth of the balances in the PRGT reserve accounts.

19. The Fund would also be exposed to non-financial enterprise risks from the proposed augmentation of access under these arrangements. Enterprise risks are elevated on both sides. The implications for GRA and PRGT resources from the proposed augmentation are expected to be manageable. Failure of the proposed augmented arrangements to reduce debt risks, mobilize sufficient financing, and deliver sustainable economic growth would pose reputational risks to the Fund. The proposed augmentation would also increase the share of preferred creditor debt, albeit by a small margin. Risks are mitigated by the continued implementation of a credible policy package and the catalytic effect of Fund financing. Full program implementation by the authorities, and close engagement with official and private creditors will also be essential to mitigate risks. Residual risks need to be weighed against the reputational risk of the Fund not supporting Kenya through the augmentation of an on-track program as the country faces urgent balance of payment needs and IMF assistance is critical to close this financing gap and catalyze additional resources.

ASSESSMENT

20. The proposed augmentation of access under the EFF/ECF arrangements would help Kenya face urgent balance of payments needs that have emerged since the fifth review. The authorities are seeking additional financing from concessional and commercial sources to cover a

portion of the financing gap that has emerged as the expected full rollover of the US$2 billion Eurobond maturing in June 2024 is now unlikely to materialize. For the remainder of the financing gap, the authorities are requesting an augmentation of access under the Fund's EFF and ECF arrangements. The Fund-supported program aims to reduce debt vulnerabilities, advance the structural reform agenda, and strengthen the monetary policy framework. The primary balance of the central government is expected to improve from a deficit of 0.6 percent of GDP in FY2022/23 to a surplus of 0.7 percent of GDP in FY2023/2024 and then stabilize in the medium term at a surplus of 1.7 percent of GDP. Public debt would peak at 73 percent of GDP in 2024 and decline to 63 percent of GDP in 2028, while the current account deficit would stabilize at 4.2 percent of GDP in the medium term. Fund financing would cover 39 percent of the total financing gap during the life of the program. Under the program baseline it is expected that the Kenyan authorities will be able to regain international bond market access by 2025.

21. The Fund's GRA credit exposure to Kenya will remain relatively modest but the PRGT's exposure will continue to be more significant. The GRA exposure to Kenya will reach 1.4 percent of total credit after the EFF purchase associated with the completion of the sixth review is made. Assuming all proposed purchases are made according to schedule, Kenya's GRA credit outstanding would peak at 395 percent of quota in 2025. Kenya is also benefiting from Fund support under the ECF and the RSF arrangements and has credit outstanding from the 2020 RCF disbursement. The PRGT exposure to Kenya will remain at about 7 percent of total credit after the ECF disbursement. Kenya's credit outstanding under the RSF arrangement would peak at 75 percent of quota in 2025. The Fund's total exposure to Kenya—considering the 2020 RCF disbursement, 2021 EFF/ECF arrangements and 2023 RSF arrangement—would peak at 715 percent of quota during March-September 2025 if all proposed purchases and disbursements are made according to schedule.

22. The proposed augmentation under the EFF arrangement will have a limited impact on the Fund's liquidity position. Upon completion of the sixth review, the GRA's liquidity as measured by the FCC will be reduced by the amount of the augmentation and the Fund's remaining lending capacity will fall by 0.4 percent.

23. The proposed augmentation under the ECF will have a manageable impact on PRGT finances. The impact of the proposed augmentation under the ECF arrangement on PRGT subsidy and loan resources will be modest, reflecting its relatively moderate size, but would add to credit risk given the PRGT's already relatively large exposure to Kenya.

24. Kenya's capacity to repay the Fund is adequate but is subject to risks that have increased since the fifth review. Considering credit outstanding to the Fund under all the arrangements (2020 RCF, 2021 EFF/ECF, and 2023 RSF), capacity to repay indicators for Kenya are generally below the median for other GRA exceptional access arrangements, except for peak credit outstanding in terms of gross international reserves. Peak obligations to the Fund—including from these four arrangements—as a share of total external debt service and as a share of exports of goods and services are below the median for other exceptional access cases. However, many of Kenya's capacity to repay indicators would exceed the corresponding benchmarks that are applicable to PRGT-eligible countries (¶14). Delay in reform implementation and lower than

projected financing from other multilateral, bilateral and commercial creditors may pose risks to Kenya's capacity to repay the Fund. Kenya's external debt service burden is particularly sensitive to shocks to export growth and exchange rate depreciation. The risks to capacity to repay are mainly mitigated by Kenya's access to concessional financing and a strong track record of servicing debts.

25. Strong program implementation and materialization of financing from other creditors will be key to mitigate financial risks to the Fund. Adequate capacity to repay depends on robust and durable program implementation, continued growth-friendly fiscal consolidation and efforts to boost exports and international reserves. Credible reform implementation is also key for mobilizing resources from other official and private creditors, including regaining access to global bond markets.

Table 1a. Proposed Access and Phasing Under the Extended Fund Facility and the Extended Credit Facility

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

Source: IMF staff estimates.
1/ The first, second, third, fourth, and fifth EFF/ECF reviews took place on June 23, 2021, December 17, 2021, July 18, 2022, December 19, 2022, and July 17, 2023 respectively.

Table 1b. Schedule of Reviews and Disbursements Under the RSF Arrangement

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

Source: IMF staff estimates.
Note: Kenya's quota is SDR 542.8 million.
1/ Reflects earliest available date for disbursement subject to assessment by the IMF Board of implementation of a reform measure and complemtion of RSF review.
2/ The authorities anticipate that implementation of RM3 could take longer than originally envisaged but are not requesting a rephasing of access.

Table 2. IMF Financial Arrangements and Fund Exposure, 1988-2045

(In millions of SDR)

Year	Type of New Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement		Amount Drawn	Fund Exposure 1/
1988	SBA	1-Feb-1988	15-May-1989	85.0		62.6	338.4 2/
	SAF	1-Feb-1988	15-May-1989	99.4		28.4	
1989	ECF	15-May-1989	31-Mar-1993	261.4		216.2	316.1
1990							338.9
1991							344.8
1992							286.1
1993	ECF	22-Dec-1993	21-Dec-1994	45.2		45.2	264.3
1994							277.3
1995							251.5
1996	ECF	26-Apr-1996	25-Apr-1999	149.6		24.9	234.5
1997							185.6
1998							139.5
1999							95.8
2000	ECF	4-Aug-2000	3-Aug-2003	190.0		33.6	97.2
2001							78.6
2002							64.6
2003	ECF	21-Nov-2003	20-Nov-2007	150.0		150.0	75.6
:							:
:							:
2011	ECF	31-Jan-2011	19-Dec-2013	488.5		488.5	456.5
2012							581.6
2013							695.5
2014							656.9
2015	SBA	2-Feb-2015	14-Mar-2016	352.8		0.0	609.8
	SCF	2-Feb-2015	14-Mar-2016	135.7		0.0	
2016	SBA	14-Mar-2016	14-Sep-2018	709.3		0.0	561.1
	SCF	14-Mar-2016	13-Mar-2018	354.6		0.0	
2017							475.4
2018							372.1
2019							260.8
2020	RCF	6-May-2020	11-May-2020	542.8		542.8	705.9
2021	EFF	2-Apr-2021	1-Apr-2025	2,145.7	3/	980.8	1,301.4
	ECF	2-Apr-2021	1-Apr-2025	787.0	3/	528.2	
2022							1,766.7
2023	RSF	17-Jul-2023	31-Mar-2025	407.1		0	*2,051.8* 4/
2024							*3,669.8* 4/
2025							*3,800.1* 4/
2026							*3,596.1* 4/
2027							*3,319.9* 4/
2028							*2,873.8* 4/
2029							*2,291.4* 4/
2030							*1,726.5* 4/
2031							*1,256.0* 4/
2032							*862.5* 4/
2033							*562.8* 4/
2034							*409.0* 4/
2035							*361.9* 4/
2036							*321.2* 4/
2037							*280.5* 4/
2038							*239.7* 4/
2039							*199.0* 4/
2040							*158.3* 4/
2041							*117.6* 4/
2042							*76.9* 4/
2043							*36.2* 4/
2044							*4.5* 4/
2045							*0.0* 4/

Source: Finance Department.
1/ As of end-December, unless otherwise stated.
2/ Fund exposure in 1988 included outstanding credit from arrangements prior to 1988.
3/ The EFF arrangement was approved in April 2021 for SDR 1,248.4 million, augmented in the fifth review to SDR 1,484.6 million and currently to SDR 2,145.7 million. The ECF arrangement was approved in April 2021 for SDR 407.1 million, augmented in the fourth review to SDR 569.9 million, in the fifth review to SDR 740.9 million, and currently to SDR 787.0 million.
4/ Figures including transactions under the proposed program are in italics. Fund exposure is derived assuming purchases and disbursements are made as per the schedule in Table 1a and 1b and Kenya remains current on all its scheduled repurchases and repayments.

Table 3. Decomposition of Public Debt, 2022-25 [1/]

	Actual	Projections		
	2022	2023	2024	2025
	(In US$ mln)	*(In US$ mln)*		
Creditor profile				
Total	**73,625**	**70,822**	**70,962**	**73,856**
External	**37,370**	**39,152**	**41,032**	**42,429**
Multilateral creditors	17,474	19,374	23,414	24,936
IMF	2,399	2,778	4,927	5,098
World Bank	11,086	12,585	14,567	16,021
African Development Bank	3,492	3,538	3,474	3,401
Other Multilaterals	498	472	445	415
Bilateral Creditors	10,497	9,901	10,202	10,536
Paris Club	3,793	3,665	3,969	4,298
Non-Paris Club	6,705	6,236	6,233	6,238
Private creditors	9,399	9,878	7,416	6,957
Bonds	7,100	7,100	5,100	5,400
Commercial creditors	2,299	2,778	2,316	1,557
Domestic	**36,254**	**31,670**	**29,930**	**31,427**
Memorandum items				
Collateralized debt	0	0	0	0
o/w: Related	0	0	0	0
o/w: Unrelated	0	0	0	0
Multilateral and collateralized debt [2]				
Multilateral debt				
Percent of external debt	46.8	49.5	57.1	58.8
Percent of GDP	15.4	17.9	23.8	23.5
o/w: IMF and WB				
Percent of external debt	36.1	39.2	47.5	49.8
Percent of GDP	11.9	14.2	19.8	19.9
o/w: African Development Bank				
Percent of external debt	9.3	9.0	8.5	8.0
Percent of GDP	3.1	3.3	3.5	3.2
o/w: Other multilateral				
Percent of external debt	1.3	1.2	1.1	1.0
Percent of GDP	0.4	0.4	0.5	0.4
Collateralized debt				
Percent of external debt	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0

Source: Kenyan authorities and IMF staff calculations.
1/ As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as in the DSA.
2/ Debt ratios are constructed by converting external debt to Ksh using end-period exchange rate and dividing by Ksh GDP.

Table 4. Decomposition of Public Debt and Debt Service by Creditor, 2022-25 1/

	Debt Stock (end of period)			Debt Service					
	2022			2023	2024	2025	2023	2024	2025
	(In US$ mln)	(Percent total debt)	(Percent GDP) [2]	(In US$ mln)			(Percent GDP)		
Total	**73,625**	**100.0**	**67.9**	**10,804**	**10,449**	**8,318**	**10.0**	**10.6**	**7.8**
External	**37,370**	**50.8**	**34.5**	**3,392**	**5,149**	**3,723**	**3.1**	**5.2**	**3.5**
Multilateral creditors	17,474	23.7	15.4	642	638	786	0.6	0.6	0.7
IMF	2,399	3.3	2.1	-	-	-	-	-	-
World Bank	11,086	15.1	9.7	-	-	-	-	-	-
African Development Bank	3,492	4.7	3.1	-	-	-	-	-	-
European Economic Community (incl. EIB)	177	0.2	0.2	-	-	-	-	-	-
International Fund For Agricultural Development	225	0.3	0.2	-	-	-	-	-	-
Other Multilaterals	96	0.1	0.1	-	-	-	-	-	-
o/w: Arab Bank For Economic Development In Africa	45	0.1	0.0	-	-	-	-	-	-
Nordic Development Fund	23	0.0	0.0	-	-	-	-	-	-
Bilateral Creditors	10,497	14.3	9.2	1,447	1,376	1,330	1.3	1.4	1.3
Paris Club	3,793	5.2	3.3	430	398	383	0.4	0.4	0.4
o/w: Japan	1,403	1.9	1.2	-	-	-	-	-	-
France (incl. AFD)	774	1.1	0.7	-	-	-	-	-	-
Non-Paris Club	6,705	9.1	5.9	1,017	978	946	0.9	1.0	0.9
o/w: EXIM China	6,557	8.9	5.8	-	-	-	-	-	-
EXIM India	61	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	9.6	6.2	515	2,444	667	0.5	2.5	0.6
Commercial creditors	1,881	2.6	1.7	680	537	698	0.6	0.5	0.7
o/w: Trade and Development Bank	1,728	2.3	1.5	-	-	-	-	-	-
China Development Bank	88	0.1	0.1	-	-	-	-	-	-
Other international creditors	418	0.6	0.4	73	61	50	0.1	0.1	0.0
o/w: Intesa SanPaolo	235	0.3	0.2	-	-	-	-	-	-
ING Bank Germany	23	0.0	0.0	-	-	-	-	-	-
Domestic[3]	**36,254**	**49.2**	**33.5**	**7,412**	**5,301**	**4,596**	**6.8**	**5.4**	**4.3**
Held by non-residents, total	257	0.3	0.2	-	-	-	-	-	-
T-Bills	5,587	7.6	4.9	-	-	-	-	-	-
Bonds	30,076	40.9	26.5	-	-	-	-	-	-
Loans	591	0.8	0.5	-	-	-	-	-	-
Memo items:									
Collateralized debt	0	0.0	0.0	-	-	-	-	-	-
o/w: Related	0	0.0	0.0	-	-	-	-	-	-
o/w: Unrelated	0	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Public guarantees [4]	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Other explicit contingent liabilities [5, 6]	n.a.	n.a.	n.a.	-	-	-	-	-	-

Source: Kenyan authorities and IMF staff calculations.

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

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

3/ Includes CBK on-lending to the government of the Ksh-equivalent of three-quarters of the 2021 general allocation of SDRs.

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

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

6/ Capacity constraints limit data availability on other explicit liabilities not elsewhere classified. Data is expected to become available at the time of the next review of the IMF EFF/ECF arrangements.

16 INTERNATIONAL MONETARY FUND

KENYA

Table 5. Capacity to Repay Indicators [1/]

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
											Projections												
Fund Obligations Based on Existing Credit (millions of SDRs)																							
Principal	21.6	0.0	82.6	204.0	276.2	362.1	377.7	323.4	224.6	147.6	53.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	51.8	67.9	67.8	65.6	60.8	53.4	44.9	36.5	28.2	22.0	18.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)																							
Principal	21.6	0.0	82.6	204.0	276.2	446.1	582.4	564.9	470.5	393.5	299.6	153.9	47.1	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	31.7	4.5
GRA	0.0	0.0	28.3	79.2	125.3	247.4	351.1	357.6	329.3	278.5	232.3	110.2	6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	21.6	0.0	54.3	124.8	150.9	198.7	231.3	207.3	141.1	115.1	67.3	34.6	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.1	36.2	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	31.7	4.5
Charges and interest	51.8	121.4	167.1	167.2	160.5	153.9	133.3	104.4	80.7	64.5	50.9	40.3	36.5	34.5	32.5	30.5	28.5	26.5	24.5	22.5	20.6	18.6	17.5
GRA	51.8	98.2	131.2	129.9	123.1	116.5	96.0	67.1	43.3	27.1	13.5	3.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	5.8	18.5	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.0	17.1	15.1	13.1	11.1	9.1	7.1	5.1	3.2	1.2	0.1
SDR charges and assessments	0.0	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Total Obligations Based on Existing and Prospective Credit																							
Millions of SDRs	73.4	121.4	249.6	371.2	436.6	600.0	715.7	669.4	551.1	458.0	350.5	194.2	83.6	75.2	73.2	71.2	69.2	67.3	65.2	63.3	61.3	50.3	22.0
Millions of U.S. dollars	97.9	161.4	333.5	497.8	586.8	809.2	968.8	906.0	746.0	619.9	474.4	262.8	113.2	101.8	99.1	96.4	93.7	91.0	88.3	85.6	82.9	68.0	29.8
Percent of quota	13.5	22.4	46.0	68.4	80.4	110.5	131.9	123.3	101.5	84.4	64.6	35.8	15.4	13.9	13.5	13.1	12.8	12.4	12.0	11.7	11.3	9.3	4.1
GRA	9.6	21.3	32.6	41.7	49.0	70.3	85.6	81.5	71.9	59.5	48.5	24.1	4.4	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
PRGT	4.0	0.0	10.0	23.0	27.8	36.6	42.6	38.2	26.0	21.2	12.4	6.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	1.1	3.4	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	5.3	10.2	10.7	10.3	9.9	9.5	9.2	8.8	8.4	8.1	6.1	0.8
Percent of GDP	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.6	0.5	0.4	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.7	1.1	2.1	2.9	3.1	4.0	4.3	3.7	2.8	2.2	1.5	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Percent of gross international reserves	1.3	2.0	3.7	5.0	5.5	7.0	7.8	6.8	5.3	4.1	2.9	1.5	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1
Percent of government revenue	0.5	0.9	1.6	2.2	2.4	3.2	3.5	3.1	2.4	1.8	1.3	0.7	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Percent of external debt service, public	2.9	3.1	9.0	11.5	14.7	17.0	27.1	20.8	16.5	13.2	9.7	5.2	2.3	1.9	1.9	1.7	1.8	1.6	1.5	1.5	1.4	1.1	0.6
Outstanding Fund Credit Based on Existing and																							
Millions of SDRs	2,051.8	3,669.8	3,800.1	3,596.1	3,319.9	2,873.8	2,291.4	1,726.5	1,256.0	862.5	562.8	409.0	361.9	321.2	280.5	239.7	199.0	158.3	117.6	76.9	36.2	4.5	0.0
GRA	980.8	2,067.0	2,117.4	2,038.3	1,913.0	1,665.5	1,314.5	956.9	627.5	349.1	116.8	6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	1,071.0	1,286.2	1,275.6	1,150.7	999.8	801.2	569.8	362.5	221.4	106.3	39.0	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	316.6	407.1	407.1	407.1	407.1	407.1	407.1	407.1	407.1	407.1	398.1	361.9	321.2	280.5	239.7	199.0	158.3	117.6	76.9	36.2	4.5	0.0
Millions of U.S. dollars	2,736.2	4,876.2	5,076.8	4,822.6	4,461.7	3,876.3	3,101.5	2,336.9	1,700.0	1,167.4	761.8	553.6	489.8	434.7	379.6	324.5	269.4	214.3	159.2	104.1	49.0	6.1	0.0
Percent of quota	378.0	676.1	700.1	662.5	611.6	529.4	422.1	318.1	231.4	158.9	103.7	75.3	66.7	59.2	51.7	44.2	36.7	29.2	21.7	14.2	6.7	0.8	0.0
GRA	180.7	380.8	390.1	375.5	352.4	306.8	242.2	176.3	115.6	64.3	21.5	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	197.3	236.9	235.0	212.0	184.2	147.6	105.0	66.8	40.8	19.6	7.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	58.3	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	73.3	66.7	59.2	51.7	44.2	36.7	29.2	21.7	14.2	6.7	0.8	0.0
Percent of GDP	2.5	5.0	4.8	4.2	3.6	2.9	2.2	1.5	1.0	0.7	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	20.4	33.3	31.7	27.7	23.6	18.9	13.9	9.7	6.4	4.1	2.4	1.6	1.3	1.0	0.8	0.7	0.5	0.4	0.2	0.1	0.1	0.0	0.0
Percent of gross international reserves	36.2	60.4	56.1	48.7	41.9	33.4	24.9	17.7	12.0	7.6	4.6	3.1	2.5	2.0	1.6	1.3	1.0	0.8	0.5	0.3	0.1	0.0	0.0
Percent of government revenue	14.1	25.9	24.5	21.5	18.6	15.1	11.3	7.9	5.4	3.4	2.1	1.4	1.2	1.0	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0
Percent of external debt, public	7.0	11.9	12.0	11.0	10.1	8.5	6.5	4.8	3.3	2.2	1.4	1.0	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
Net Use of Fund Credit (millions of SDRs)																							
Disbursements and purchases	306.7	1,618.0	212.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	21.6	0.0	82.6	204.0	276.2	446.1	582.4	565.0	470.5	393.5	299.6	153.9	47.1	40.7	40.7	40.7	40.7	40.7	40.7	40.7	40.7	31.7	4.5
Memorandum Items:																							
Nominal GDP (millions of U.S. dollars)	108,436	98,398	106,317	114,768	122,852	131,684	141,188	151,345	162,297	174,011	186,619	199,846	214,094	229,349	245,834	263,496	282,344	302,659	324,540	347,703	372,056	399,509	428,273
Exports of goods and services (millions of U.S. dollars)	13,382	14,647	16,028	17,411	18,886	20,470	22,334	24,182	26,400	28,820	31,491	34,556	37,893	41,554	45,378	49,561	54,270	59,294	64,800	70,976	77,576	84,819	92,750
Gross international reserves (millions of U.S. dollars)	7,554	8,067	9,042	9,895	10,638	11,619	12,479	13,229	14,205	15,283	16,567	17,994	19,596	21,295	23,147	25,179	27,375	28,048	32,255	34,673	37,814	40,946	44,344
Government revenue (millions of U.S. dollars)	19,434	18,804	20,703	22,420	23,958	25,688	27,540	29,525	31,656	33,942	36,373	38,961	41,742	44,725	47,917	51,331	54,988	58,909	63,174	67,778	72,575	78,011	79,519
External debt, public (millions of U.S. dollars)	39,152	41,032	42,429	43,771	44,365	45,378	47,463	49,179	50,915	52,334	54,165	56,335	58,509	60,160	62,294	64,230	66,719	69,158	71,581	70,867	66,693	67,517	65,098
External debt service, public (millions of U.S. dollars)	3,392	5,149	3,723	4,336	3,988	4,766	3,579	4,349	4,511	4,712	4,892	5,076	5,007	5,496	5,217	5,607	5,139	5,611	5,785	5,848	6,093	6,022	5,287
Average exchange rate: SDR per U.S. dollars	0.75	0.75	0.75	0.75	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74
Quota (millions of SDRs)	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8	542.8

Source: Kenya authorities, Finance Department, and IMF staff estimates.

1/ Assumes full drawings. Indicators based on the baseline macroeconomic scenario presented in the staff report.

Table 6. Impact on GRA Finances
(in millions of SDR unless otherwise noted)

	As of 12/6/2023
Liquidity measures	
Current one-year Forward Commitment Capacity (FCC) 1/	163,636.8
Impact of augmentation on FCC 2/	-661.1
(in percent of current one-year FCC)	-0.4
Prudential measures	
Fund GRA credit outstanding to Kenya upon augmentation approval 3/	1,341.3
In percent of current precautionary balances	5.7
In percent of total GRA credit outstanding	1.4
Fund GRA credit outstanding to top five borrowers	63,540.0
In percent of current precautionary balances	270.3
In percent of total GRA credit outstanding	68.6
In percent of total GRA credit outstanding upon augmentation approval 3/	68.3
Kenya's GRA charges/surcharges remaining in 2023 in percent of residual burden sharing capacity	0.0
Memorandum items	
Fund's precautionary balances (as of end-October 2023)	23,511
Fund's residual burden-sharing capacity 4/	1,353.8

Sources: Kenyan authorities, Finance Department, and IMF staff estimates.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the New Arrangements to Borrow or the Bilateral Borrowings Agreements.
2/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one-year forward.
3/ Projected credit outstanding for Kenya after the purchase upon completion of the sixth review and approval of the EFF augmentation.
4/ Burden-sharing capacity is calculated based on the floor for remuneration which, under current policies, is 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges.

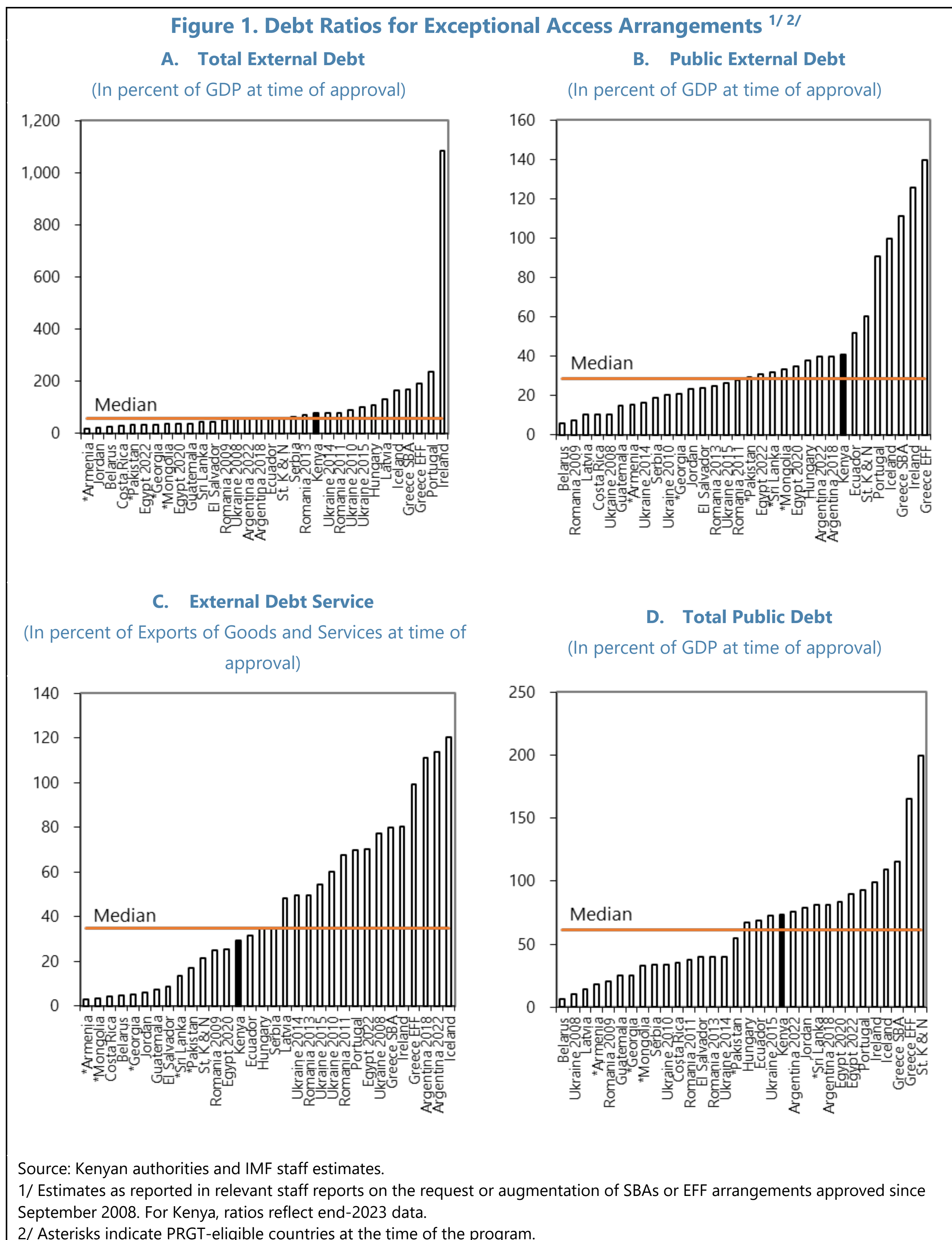
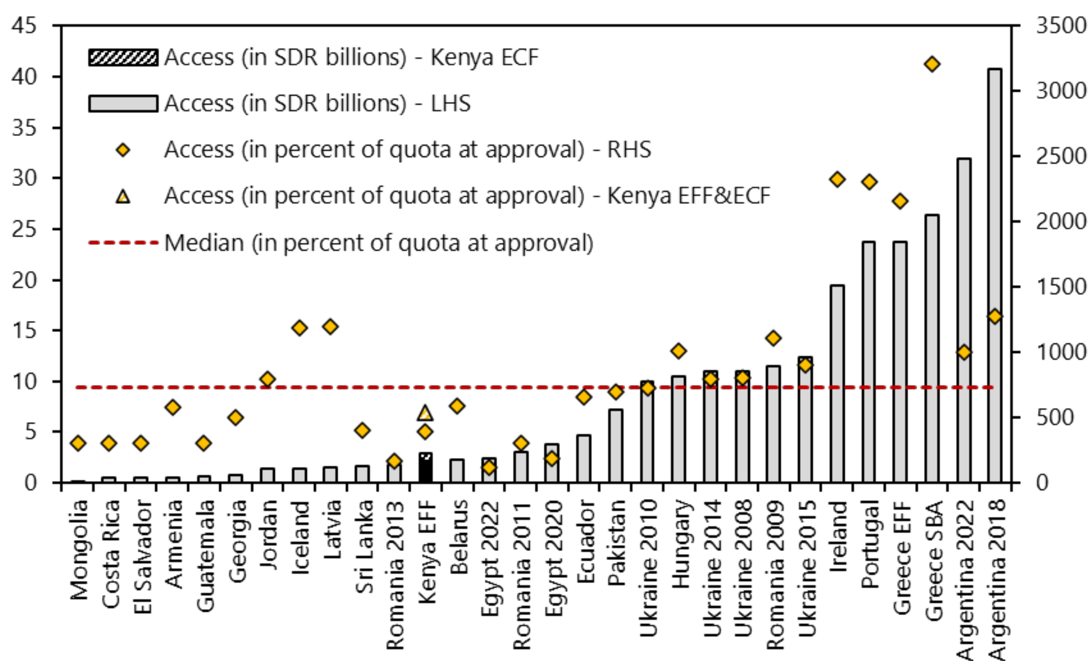


Figure 1. Debt Ratios for Exceptional Access Arrangements 1/ 2/
A. Total External Debt
(In percent of GDP at time of approval)
1,200
1,000
800
600
400
200
0
Median
*Armenia
Jordan
Belarus
Costa Rica
*Pakistan
Egypt 2022
*Georgia
*Mongolia
Egypt 2020
Guatemala
*Sri Lanka
El Salvador
Romania 2009
Ukraine 2008
Argentina 2022
Argentina 2018
Ecuador
St. K & N
Serbia
Romania 2013
Kenya
Ukraine 2014
Romania 2011
Ukraine 2010
Ukraine 2015
Hungary
Latvia
Iceland
Greece SBA
Greece EFF
Portugal
Ireland
B. Public External Debt
(In percent of GDP at time of approval)
160
140
120
100
80
60
40
20
0
Median
Belarus
Romania 2009
Latvia
Costa Rica
Ukraine 2008
Guatemala
*Armenia
Ukraine 2014
Serbia
Ukraine 2010
*Georgia
Jordan
El Salvador
Romania 2013
Ukraine 2015
Romania 2011
*Pakistan
Egypt 2022
*Sri Lanka
*Mongolia
Egypt 2020
Hungary
Argentina 2022
Argentina 2018
Kenya
Ecuador
St. K & N
Portugal
Iceland
Greece SBA
Ireland
Greece EFF
C. External Debt Service
(In percent of Exports of Goods and Services at time of approval)
140
120
100
80
60
40
20
0
Median
*Armenia
*Mongolia
Costa Rica
Belarus
*Georgia
Jordan
Guatemala
El Salvador
*Sri Lanka
*Pakistan
St. K & N
Romania 2009
Egypt 2020
Kenya
Ecuador
Hungary
Serbia
Latvia
Ukraine 2014
Romania 2013
Ukraine 2015
Ukraine 2010
Romania 2011
Portugal
Egypt 2022
Ukraine 2008
Greece SBA
Ireland
Greece EFF
Argentina 2018
Argentina 2022
Iceland
D. Total Public Debt
(In percent of GDP at time of approval)
250
200
150
100
50
0
Median
Belarus
Ukraine 2008
Latvia
*Armenia
Romania 2009
Guatemala
*Georgia
*Mongolia
Serbia
Ukraine 2010
Costa Rica
Romania 2011
El Salvador
Romania 2013
Ukraine 2014
*Pakistan
Hungary
Ecuador
Ukraine 2015
Kenya
Argentina 2022
Jordan
*Sri Lanka
Argentina 2018
Egypt 2020
Egypt 2022
Portugal
Ireland
Iceland
Greece SBA
Greece EFF
St. K & N
Source: Kenyan authorities and IMF staff estimates.
1/ Estimates as reported in relevant staff reports on the request or augmentation of SBAs or EFF arrangements approved since September 2008. For Kenya, ratios reflect end-2023 data.
2/ Asterisks indicate PRGT-eligible countries at the time of the program.

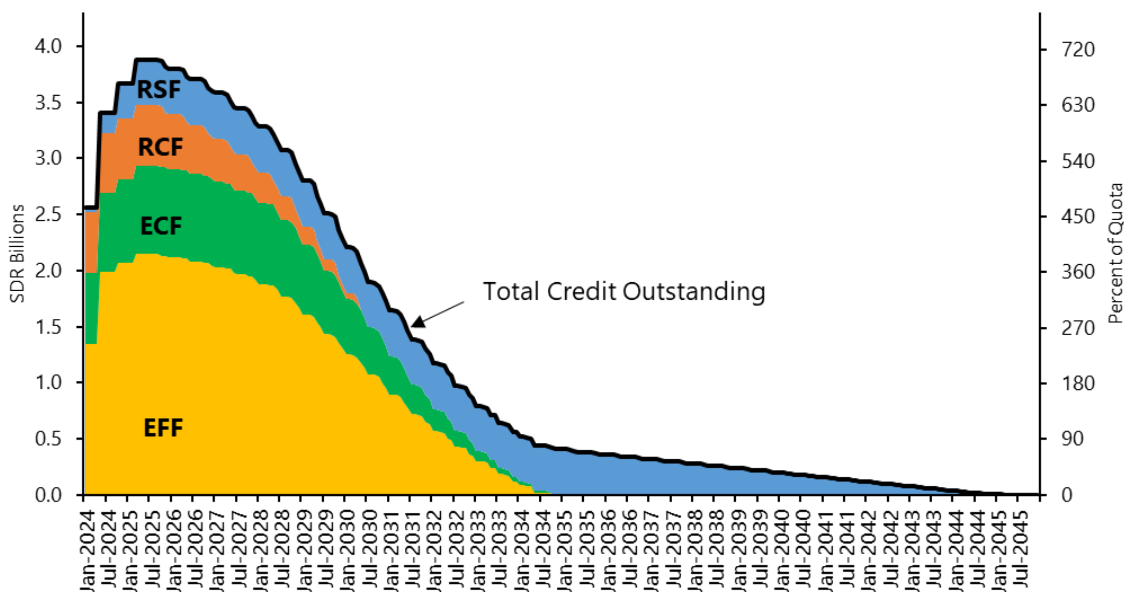
Figure 2. Approved GRA Exceptional Access Cases Since September 2008 1/



Source: Finance Department and IMF staff estimates.

1/ FCL arrangements as well as arrangements with relatively low access in SDRs are not included.

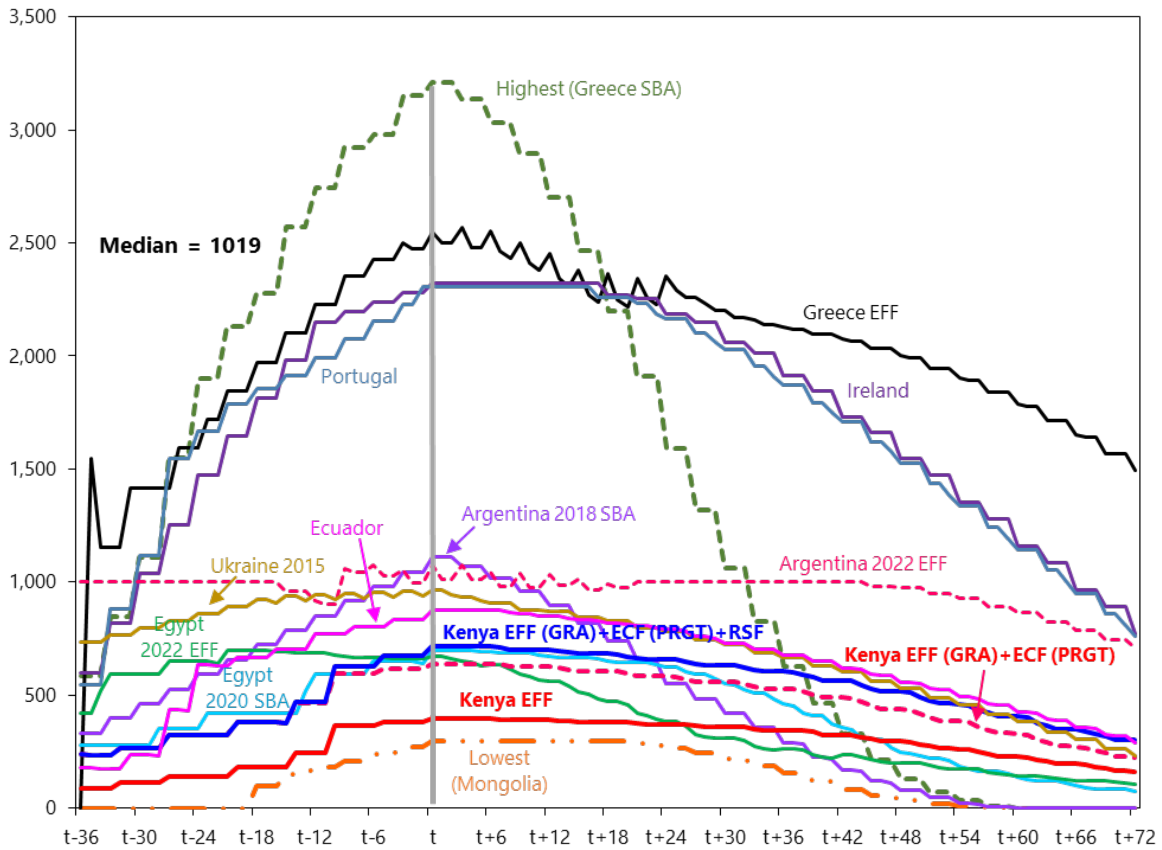
Figure 3. Projected Credit Outstanding Path Under EFF, ECF, RCF, and RSF



Source: Finance Department and IMF staff estimates.

Figure 4. Credit Outstanding in the GRA Around Peak Borrowing 1/ 2/

(in percent of quota)



Source: Finance Department and IMF staff estimates.

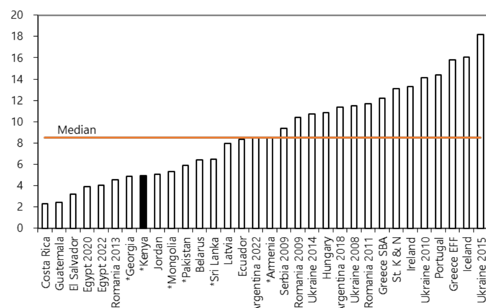
1/ Peak borrowing "t" is defined as the highest level of credit outstanding for a member. Repurchases and repayments are assumed to be on an obligations basis.

2/ Based on quotas at the time of approval, i.e., pre-14th General Review of Quotas for all countries except Argentina, Ecuador, Egypt, and Kenya. Median credit outstanding at peak is 1,019 percent of quota; average is 1,399 percent of quota.

Figure 5. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases [1/ 2/ 3/]

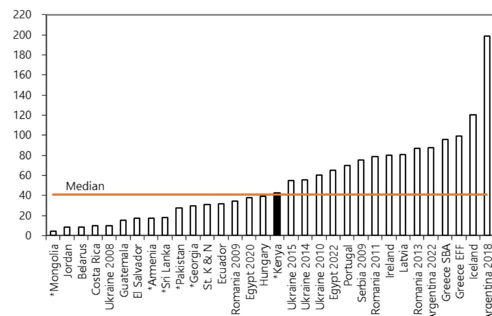
Peak Fund Exposure Ratios

In Percent of GDP

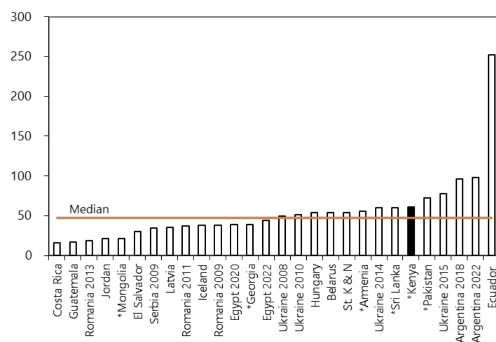


Peak Debt Service Ratios

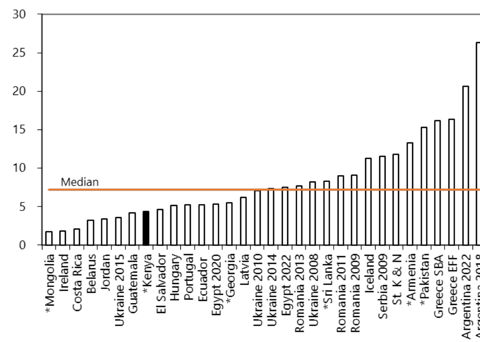
Total External Debt Service in Percent of Exports of Goods and Services



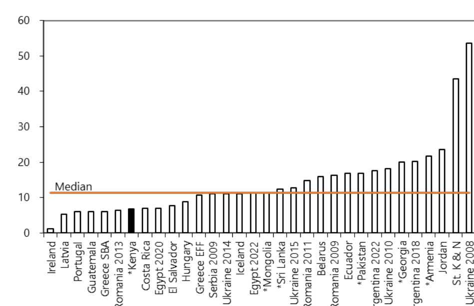
In Percent of Gross International Reserves [4/]



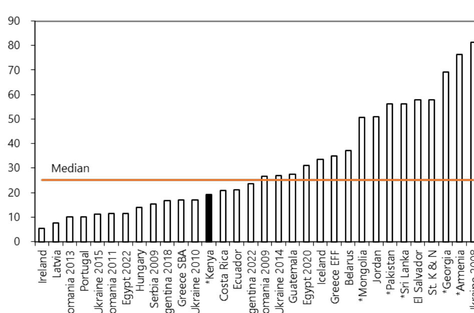
Debt Service to the Fund in Percent of Exports of Goods and Services



In Percent of Total External Debt [5/]



Debt Service to the Fund in Percent of Total External Debt Service



Source: Kenya authorities, Finance Department, and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request or augmentation of SBAs or EFF arrangements approved since September 2008.

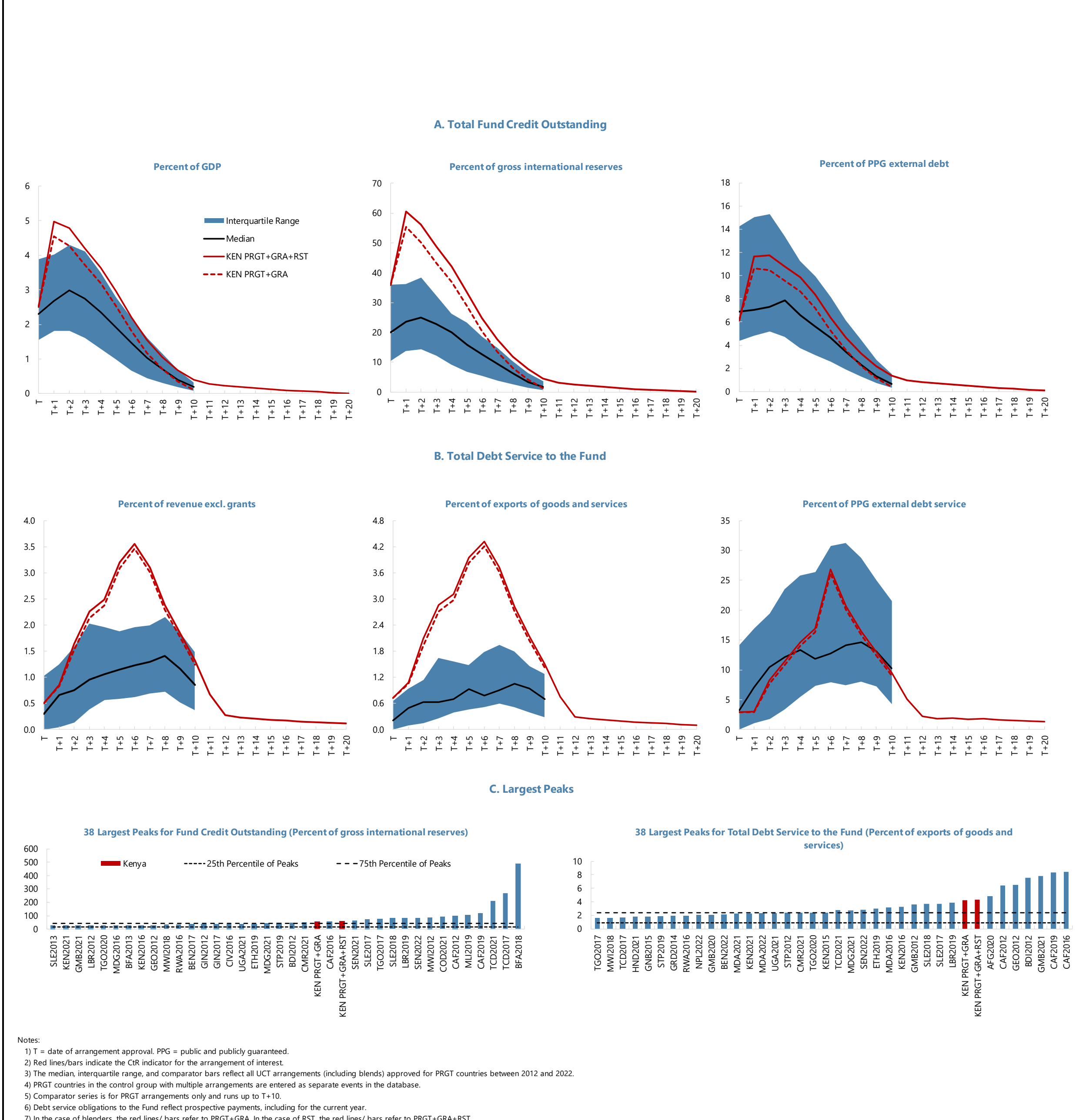
2/ Asterisks indicate PRGT-eligible countries at the time of the program.

3/ Kenya's exposure and debt service to the Fund include EFF, ECF, RCF, and RSF.

4/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

5/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

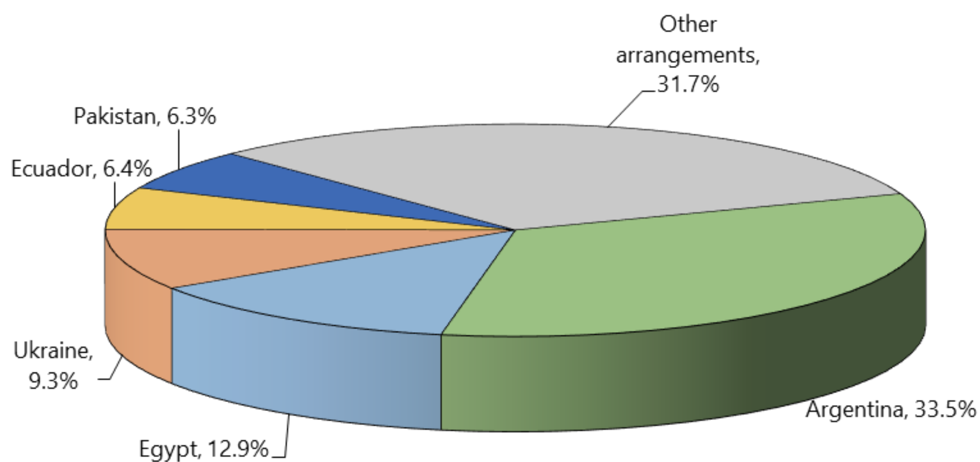
Figure 6. Capacity to Repay Indicators Compared to Upper Credit Tranche Arrangements for PRGT Countries



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Figure 7. Credit Concentration of Fund GRA Exposure 1/

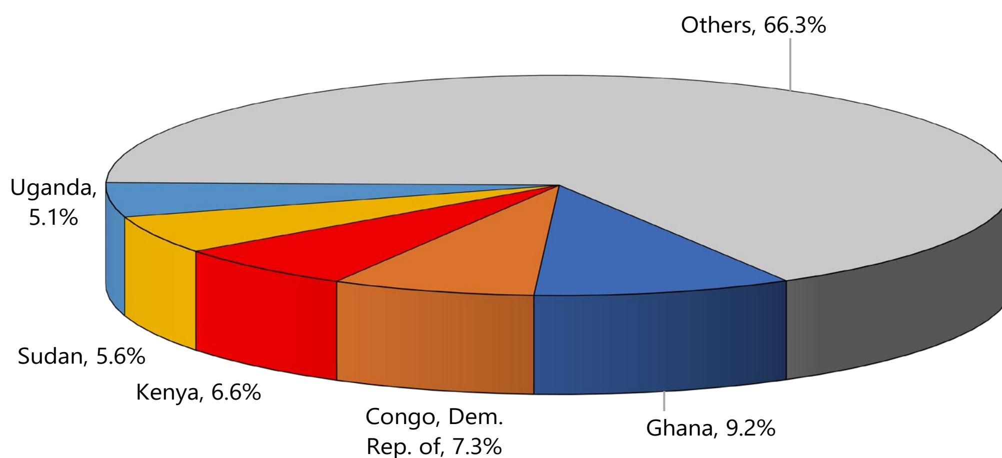
(As a percentage of total credit outstanding)



Source: Finance Department.
1/ Total credit outstanding refers to credit outstanding as of December 6, 2023, plus Kenya's purchase under the proposed EFF augmentation.

Figure 8. Credit Concentration Under the PRGT 1/

(As a percentage of total credit outstanding)



Source: Finance Department.
1/ Total credit outstanding refers to credit outstanding as of December 8, 2023, plus Kenya's disbursement from the sixth ECF review.

Statement by the Executive Director, Mr. Willie Nakunyada, and the Advisor of the Executive Director, Mr. Morekwa Esman Nyamongo
January 17, 2024

I. Introduction

1. Our Kenyan authorities appreciate the fruitful engagements with staff during the mission on the 2023 Article IV consultation, the sixth reviews of the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements, and the first review of the Resilience and Sustainability Facility (RSF) arrangement. They broadly concur with the thrust of staff's appraisal and policy recommendations.

2. The Kenyan economy continues to register a strong recovery and has demonstrated resilience to considerable headwinds from elevated domestic and external shocks. The unfavorable global financial conditions, and the negative spillovers from the war in Ukraine and Sudan, as well as tensions in the Middle East continue to weigh on economic performance. As a result, fiscal and external pressures have worsened against the background of high fuel and food import prices, costly market access in the higher-for-longer global interest rate environment, subdued export performance, and lower reserves. Nevertheless, the country's diversified economic base and the authorities' policy responses helped to partially mitigate the negative repercussions of the shocks. At the same time, the authorities have stayed the course in implementing critical reforms that have helped keep the EFF/ECF program on track, despite the difficult socio-political context. Accordingly, they remain committed to sustained fiscal consolidation efforts aimed to place public finances on a stronger footing, alongside appropriate monetary policy actions to entrench price stability. In parallel, they are advancing structural reforms to ensure a sustainable, inclusive, and greener growth.

3. Considering the additional fiscal and balance of payments financing gaps resulting from the challenging external environment, **the authorities request an augmentation of access amounting to 130.3 percent of quota (SDR707.27 million with SDR661.13 million from the GRA and SDR46.14 million from the PRGT), modifications of program conditionalities, and associated waivers.**

II. Program Performance

4. All end-June 2023 Quantitative Targets (QTs) were met, except the target on taxes which was missed. The targets on the primary fiscal balance, net international reserves (NIR), no new domestic guarantees, and present value (PV) of contracting or guaranteeing of new external debt were met. That said, the target on taxes was missed owing to significant revenue shortfalls stemming from subdued activity in key revenue-contributing sectors, some of which continued through end-December 2023 resulting in an anticipated, albeit smaller, shortfall in tax collection. Nonetheless, the authorities introduced corrective tax policy measures as well as tax administrative measures as part of the 2023 Finance Bill and submitted these additional measures to Parliament in December 2023 to mitigate the shortfall. The tax policy measures introduced include the adoption of a motor vehicle

circulation tax, removal of several exemptions on interest income, reduction of selected tax expenditure on VAT and import duties and increase in excise rates for money transfers. The tax administrative measures introduced include improvements in the enforcement of VAT on exempt supplies, collection of debt under dispute, completion of audits on ongoing cases and improvements of audits of VAT refunds, the strengthening of taxation at the source for financial sector, and improvements of custom declaration for consolidated cargo.

5. The continuous performance criteria on non- accumulation of external arrears was missed by a small margin due to administrative delays in processing the payments for two loans. To avoid recurrence, the authorities have put in place end-of-day reconciliation of request and actual settlement of debt service payments, and they plan to strengthen compliance of debt reporting by state-owned-enterprises (SOEs). On the Indicative Targets (ITs), the end-June 2023 targets on priority social expenditure and exchequer requests outstanding for more than 90 days were met.

6. The Monetary Policy Consultation Clause (MPCC) was triggered for end-June 2023 as the three-month average inflation of 7.9 percent was outside the target band of 2.5–7.5 percent. Following the consultations with the IMF Executive Board in July, the CBK moved aggressively to implement actions which, together with the previous measures, saw inflation decline in July 2023 to within the target band through December 2023.

7. Six out of seven Structural Benchmarks (SBs) were implemented albeit with a delay due to lengthy legal and administrative procedures as well as the need for stakeholder engagements. However, the end-September SBs on the strategy to validate and clear the stock of pending bills outstanding at the end of June 2022, was not met. To demonstrate commitment to this reform, the Pending Bill Review Committee was gazetted in September 2023. The Committee commenced work in November 2023, and it is expected to complete work and present its findings and recommendations to Cabinet by February 2024. The scope of the review was also broadened to include tax refund claims.

8. Reform measures under the RSF progressed well. As a start, the Reform Measure (RM) on the National Framework for Climate Services was approved by Cabinet in November 2023. This approval is expected to enhance coordination, facilitation, and collaboration among institutions to ensure the development and incorporation of science-based engagements on climate matters.

9. Considering the satisfactory program performance and the corrective actions already taken, our authorities seek Executive Directors' support in completion of the sixth reviews under the EFF/ECF arrangements and associated waivers, and the completion of the first review under the RSF.

III. Recent Economic Developments and Outlook

10. The Kenyan economy grew by 5.6 percent in the first three quarters of 2023 compared to 5.2 percent over the corresponding period in 2022. The broad-based growth performance was spurred by the robust expansion of activity in the agriculture sector which grew by 7.0 percent owing to favorable weather conditions, while performance in the services sectors remained resilient benefitting

from the post-pandemic recovery. Considering the outcome so far and the latest economic indicators for the fourth quarter of 2023, the real GDP is estimated to have grown by 5.7 percent in 2023 and is expected to remain strong at 5.3 percent in 2024. The authorities are more optimistic on the outlook premised on the strong private domestic demand in the face of fiscal consolidation as well as their strong commitment on initiatives designed to benefit low-income households.

11. Headline inflation declined from 9.1 percent in December 2022 to 6.6 percent in December 2023, falling within the target range of 2.5–7.5 percent. Nonetheless, inflation has remained sticky in the upper band in recent months, mainly reflecting exchange rate depreciation pass-through and elevated international oil prices. The El-Nino rains in the second half of the year saw food inflation declining significantly. Similarly, Non-Food-Non-Fuel (NFNF) inflation has softened, reflecting the impact of the tighter monetary conditions.

12. The current account deficit is expected to narrow from 5.2 percent of GDP in 2022 to 4.1 percent of GDP in 2023 supported by recovery in the tourism sector, declining imports, and robust remittances inflows. The decline in imports reflects trends in global energy prices as well as a slowdown in capital imports following completion of major infrastructure projects. The traditional exports of tea, coffee, and horticulture underperformed in line with subdued global demand. Consequently, the FX inflows remained weak amid significant foreign debt service payments, thereby exerting undue pressure on the CBK's usable foreign exchange reserve buffers that are estimated at USD 6.6 billion (3.5 months of import cover[1]) which falls below the statutory target of 4 months of import cover, as at end December 2023.

IV. Fiscal Policy and Debt Management

13. The authorities are committed to advancing fiscal consolidation efforts despite rising expenditure pressures. They view steadfast implementation of a package of mutually reinforcing policies as important to reducing fiscal and external pressures and to building buffers. Despite the significant tax revenues and financing shortfalls in the FY2022/23, they maintained the primary deficit within the program target at 0.6 percent of GDP at end-June 2023 against a target of 1.1 percent of GDP, through enhanced domestic revenue mobilization efforts and expenditure rationalization.

14. The authorities aggressively implemented a raft of tax, non-tax, and administrative measures to shore up revenues to meet program targets despite the socio-political risks and in the face of the slowdown of economic activity in key sectors impacting tax revenue collection. In this connection, they are implementing measures from the Medium-Term Revenue Strategy (MTRS) and the Revenue Administration Reforms (RAR). Regarding the MTRS, they plan to undertake a range of reforms beginning early 2024, starting with the submission of the MTRS to Parliament by February 2024, as well as strengthening its governance through a formal monitoring process at the ministerial level. The

[1] Based on 36 months average of imports of goods and non-factor services.

authorities are also committed to improving compliance and taxpayer services by strengthening KRA's audit function, managing exemptions, and resolving delays in payment of tax refund claims.

15. The authorities continue to rationalize expenditure execution while prioritizing social spending and reducing pending bills, amid challenges in mobilizing both domestic and external financing. In this context, they are committed to strengthening the Public Procurement System (PPS) and the Public Finance Management (PFM). On the PPS, they are in the process of acquiring an end-to-end e-Government Procurement (e-GP) System where all public procurement and asset disposal transactions will be undertaken online. On the PFM, they are committed to strengthening expenditure controls and improve the efficiency and effectiveness of public spending.

16. The authorities acknowledge the unintended consequences of fuel subsidies and are taking appropriate steps to ensure that decisions on domestic fuel prices are aligned with budgeted resources. As a first step, they eliminated overall subsidies on March 15, 2023, and cross-subsidies on May 15, 2023. Consistent with the administration's priorities and program commitments, they established a taskforce—comprising members from National Treasury, Ministry of Energy and Petroleum, and the Energy and Petroleum Regulatory Authority (EPRA). The taskforce was established to review the functioning of the fuel pricing mechanism and provide recommendations to ensure that fuel pricing decisions are consistently aligned with the budgeted resources.

17. The authorities are committed to placing public debt on a firm downward trajectory over the medium term to reduce debt vulnerabilities. In this connection, they are committed to implementing the 2023 Medium-Term Debt Management Strategy (MTDS) with a view to reducing domestic refinancing risks and encouraging uptake of concessional external financing, broadening the reporting of State Corporations, and continuing reforms to deepen the domestic securities market. Relatedly, the strengthening of the legal framework for Public Finance Management (PFM) remains a priority. In this context, the authorities have replaced the nominal debt limit with a debt anchor of 55 percent of GDP in present value (PV) to be achieved by 2029. Despite these commitments, the recent weakening of the shilling as well as the higher borrowing costs have seen the interest payment on debt rise by around 1 percent of GDP while the closed international bond markets have constrained the fiscal space. Nevertheless, the authorities are committed to prudent policies to achieve and maintain debt sustainability in the medium-term.

V. Monetary, Exchange Rate, and Financial Sector Policies

18. The authorities are committed to keeping inflation within the target range, maintain a flexible exchange rate regime, and further improve the monetary policy framework. To this end, the CBK continued to maintain a tight monetary policy stance over the course of the past one and half years to further entrench price stability. Consequently, inflation decelerated to within the target band in July 2023, and it has remained there since then. Considering the elevated exchange rate pass-through risks, the CBK, at its December 2023 MPC meeting, raised its policy rate by a further 200 basis points to preempt second-round effects from crystalizing and anchor inflation expectations. Going forward, the CBK remains committed to decisively adjust the monetary policy stance as warranted, to ensure that

inflationary expectations are well anchored. It is also committed to its ongoing reforms, including: (i) refining macroeconomic modeling and forecasting frameworks (ii) developing a new monetary policy implementation framework designed to enhance monetary policy transmission (iii) improving access to the Discount Window (iv) implementation of measures to improve the functioning of the interbank market including the implementation of a Centralized Securities Depository System (CSD) (v) improving the transmission of monetary policy to bank lending rates, by completing a review of commercial banks' risk-based loan pricing models, to facilitate industry-wide implementation, and (vi) continuing to adapt and improve the communication of monetary policy decisions.

19. The CBK will continue to strengthen the efficiency of the foreign exchange market, while supporting a flexible exchange rate system to act as a shock absorber. Recognizing that the domestic FX market dysfunction in 2022–2023 impeded price discovery and efficient FX allocation and discouraged external capital inflows, the CBK continues to push FX market reforms. The reforms introduced so far includes the issuance of the Kenya FX code in March 2023 to address the problems of pricing and liquidity in the FX market, and implementation of electronic matching system in the wholesale inter-bank market and issuance of related circular in December 2023.

20. The banking sector remains stable and resilient, but the authorities remain attentive to the elevated credit and market risks. In light of the emerging financial sector risks the authorities are committed to enhancing surveillance of the banking system to ensure preservation of capital and liquidity buffers and closely monitor FX exposures. In parallel, they are urging the banks to strengthen their governance frameworks and business models. Relatedly, the authorities are committed to strengthening their financial stability policy framework, and they intend to request an IMF Financial Sector Stability Review (FSSR), to provide a diagnostic review of various aspects of the financial sector. Going forward, they plan to maintain the reform momentum towards realizing their vision outlined in the CBK's Banking Sector Charter to bolster banking sector resilience, greening of the banking sector, as well as reviews to the CBK Act.

VI. Structural Reforms

21. Structural reforms aimed at strengthening the governance, and oversight of state-owned enterprises (SOEs) and state corporations (SCs) continue to rank high on the authorities' reform priorities. Following the publication of the new privatization Act in October 2023, the authorities are working on a five-year privatization program under this law. Meanwhile, they have continued to remain within the programmed envelope for extra-ordinary budget support to SOEs and government-linked companies. The early benefits from the decisive steps to reform Kenya Airways (KQ), and Kenya Power and Lighting Company (KPLC), have been realized as they both reported operational profits in the first six months of 2023, without recourse to the Treasury.

22. The authorities are strengthening their anti-corruption legal framework and safeguarding financial integrity in line with their LOI commitments. To this end, the AML/CFT (Amendment) Act 2023 became law while the authorities are currently working to enhance the AML/CFT action plan to address the shortcomings identified in the 2022 Mutual Evaluation Report by the Eastern and

Southern African Anti-Money Laundering Group, while strengthening the AML/CFT risk-based supervision framework.

VII. Building Resilience to Climate Change

23. The authorities are making progress with RSF-supported reforms, as evidenced by adoption of the National Framework for Climate Services. The framework is expected to help strengthen collaboration among regional and national institutions to improve production and use of climate information services. Leveraging the catalytic role of RSF and their track record, the authorities continue to access global climate funds and leveraging private climate finance through various channels to further bolster resilience to climate shocks.

VIII. Conclusion

24. Our Kenyan authorities remain committed to maintaining macroeconomic stability and resilience, preserving fiscal and debt sustainability, and building buffers against shocks. They view Fund-supported programs as instrumental in unlocking additional support and acting as an important policy anchor to help realize the key objectives of their Vision 2030 blueprint and the administration's bottom-up development model. They look forward to the Executive Directors' support to conclude the sixth EFF/ECF program reviews and related requests, and the first RSF review.