

**EXECUTIVE  
BOARD  
MEETING**

EBS/21/112  
Supplement 2

December 6, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Kenya—Staff Report for 2021 Article IV Consultation, Second Reviews Under the Extended Arrangement Under the Extended Fund Facility and Under the Arrangement Under the Extended Credit Facility, and Requests for Modifications of Performance Criteria and Structural Conditionality—Informational Annex**

|  |   |
|--|---|
| Board Action:  | Executive Directors' <b>consideration</b> (Formal)  |
| Tentative Board Date:  | <b>Friday, December 17, 2021</b>  |
| Publication:   | Yes*  |
| Questions:   | Ms. Goodman, AFR (ext. 39337)<br>Mr. Crispolti, AFR (ext. 36982)<br>Mr. Iossifov, SPR (ext.36982)<br>Ms. Jack, AFR (ext. 36293)<br>Ms. Nyankiye, AFR (ext.34394)<br>Mr. Pula, AFR (ext.37250)<br>Mr. Rasmussen, AFR (ext. 35613)<br>Mr. Touray, AFR (STouray@imf.org) |
| Document Transmittal in the Absence of an Objection and in accordance with Board policy: | After Board Consideration—African Development Bank, Common Market for Eastern and Southern Africa, World Trade Organization   |

\*The authorities have indicated that they consent to the Fund's publication of this paper.





# KENYA

December 2, 2021

**STAFF REPORT FOR 2021 ARTICLE IV CONSULTATION,  
SECOND REVIEWS UNDER THE EXTENDED ARRANGEMENT  
UNDER THE EXTENDED FUND FACILITY AND UNDER THE  
ARRANGMENT UNDER THE EXTENDED CREDIT FACILITY,  
AND REQUESTS FOR MODIFICATION OF PERFORMANCE  
CRITERIA AND STRUCTURAL CONDITIONALITY—  
INFORMATIONAL ANNEX**

Prepared By: The African Department (in consultation with other Departments).

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## RELATIONS WITH THE FUND

(As of October 31, 2021)

**Membership Status:** Joined: February 03, 1964; Article VIII

| <b>General Resources Account:</b>          | <b>SDR Million</b> | <b>Percent Quota</b>      |
|--|--------------------|---------------------------|
| Quota                                      | 542.8              | 100.00                    |
| IMF's Holdings of Currency (Holdings Rate) | 868.68             | 160.04                    |
| Reserve Tranche Position                   | 13.40              | 2.47                      |
| <b>SDR Department:</b>                     | <b>SDR Million</b> | <b>Percent Allocation</b> |
| <u>Net cumulative allocation</u>           | 779.9              | 100.00                    |
| <u>Holdings</u>                            | 515.23             | 66.06                     |
| <b>Outstanding Purchases and Loans:</b>    | <b>SDR Million</b> | <b>Percent Quota</b>      |
| RCF loans                                  | 542.80             | 100.00                    |
| ECF Arrangements                           | 258.37             | 47.6                      |
| Extended Arrangements                      | 339.25             | 62.50                     |

### Latest Financial Arrangements:

| <u>Type</u>      | <u>Date of Arrangement</u> | <u>Expiration Date</u> | <u>Amount Approved (SDR Million)</u> | <u>Amount Drawn (SDR Million)</u> |
|------------------|----------------------------|------------------------|--------------------------------------|-----------------------------------|
| EFF              | Apr. 02, 2021              | Jun. 01, 2024          | 1,248.44                             | 339.25                            |
| ECF <sup>1</sup> | Apr. 02, 2021              | Jun 01, 2024           | 407.09                               | 162.84                            |
| Stand by         | Mar 14, 2016               | Sep 14, 2018           | 709.260                              | 0.00                              |

### Outright Loans:

| <u>Type</u> | <u>Date of Arrangement</u> | <u>Date Drawn</u> | <u>Amount Approved (SDR Million)</u> | <u>Amount Drawn (SDR Million)</u> |
|-------------|----------------------------|-------------------|--------------------------------------|-----------------------------------|
| RCF         | May 06, 2020               | May 11, 2020      | 542.80                               | 542.80                            |

**Overdue Obligations and Projected Payments to Fund**<sup>2</sup> (SDR Million, based on existing use of resources and present holdings of SDRs):

|                  | <u>2021</u>         | <u>Forthcoming</u>  |                     |                    | <u>2025</u>         |
|------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
|                  |                     | <u>2022</u>         | <u>2023</u>         | <u>2024</u>        |                     |
| Principal        | 23.61               | 50.34               | 21.58               |                    | 82.55               |
| Charges/Interest | <u>0.93</u>         | <u>3.71</u>         | <u>3.71</u>         | <u>3.71</u>        | <u>3.71</u>         |
| <b>Total</b>     | <b><u>24.54</u></b> | <b><u>54.05</u></b> | <b><u>25.28</u></b> | <b><u>3.71</u></b> | <b><u>86.25</u></b> |

<sup>1</sup> Formerly PRGF.

<sup>2</sup> 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.<sup>7</sup> 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 floating

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 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 June 13, 2018. Kenya is currently on a 24-month Article IV cycle.

**Technical Assistance:**

Technical assistance activities provided to Kenya since 2020 are listed in next page.

**Resident Representative:**

Mr. Tobias N. Rasmussen — since October 2019.

| <b>Kenya: Technical Assistance, 2020–21</b>   |                         |
|---|-------------------------|
|   | <b>Year of Delivery</b> |
| <b>Fiscal Affairs Department (FAD)</b>  |                         |
| Support to subnational TADAT training   | 2021                    |
| Developing Guidelines for SOE Evaluations   | 2021                    |
| Tax and non-tax revenue policy  | 2020                    |
| Tax Administration Core Functions   | 2020                    |
| Fiscal Reporting  | 2020                    |
| Tax administration  | 2020                    |
| AFRITAC East: Assessment of tax expenditures compliance management                        | 2021                    |
| AFRITAC East: Strengthening SOE oversight and governance                                  | 2021                    |
| AFRITAC East: Review and redesign of high-net-worth individuals function                  | 2021                    |
| AFRITAC East: Budget preparation  | 2020                    |
| AFRITAC East: Fiscal Reporting  | 2020                    |
| AFRITAC East: IPSAS implementation, including development of IFMIS for accrual accounting | 2020                    |
| AFRITAC East: Support to Budget Costing and Project Appraisal                             | 2020                    |
| AFRITAC East: Developing capacity in digital services tax practices                       | 2020                    |
| <b>Monetary and Capital Markets Department (MCM)</b>                                      |                         |
| Central Bank Governance   | 2020                    |
| Government Securities Market Development  | 2020                    |
| Monetary policy design and implementation   | 2020                    |
| AFRITAC East: Forecasting and Policy Analysis   | 2021                    |
| AFRITAC East: Monetary Policy Implementation and Operations                               | 2021                    |
| AFRITAC East: Strengthening IFRS 9 Implementation   | 2020                    |
| AFRITAC East: Building Cyber Security Resilience  | 2020                    |
| AFRITAC East: Basel Core principles (BCP) implementation                                  | 2020                    |
| <b>Legal Department (LEG)</b>   |                         |
| AML/CFT National Strategy   | 2020                    |
| <b>Statistics Department (STA)</b>  |                         |
| Balance of Payments and IIP   | 2021                    |
| High frequency economic indicators  | 2021                    |
| Residential property price index  | 2020                    |
| AFRITAC East: Producer price index  | 2020                    |
| AFRITAC East: Review of the preliminary rebased CPI and PPI                               | 2020                    |
| AFRITAC East: Review of the preliminary rebased GDP series                                | 2020                    |
| AFRITAC East: Government finance statistics   | 2020                    |
| AFRITAC East: Prices: Import and export price indices - Reviewing methodology             | 2020                    |

## STATISTICAL ISSUES

(as of November 30, 2021):

### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision is broadly adequate for surveillance and program monitoring, although 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 tables 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 cored and 11 encouraged indicators for 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. 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 well include settlements of 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 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 relies 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 draft IIP Statement, by including reliable source data, eliminating double counting and inconsistencies between the transactions in the financial account of the BOP and that of IIP. 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 under the National Summary Data Page (NSDP).

## **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 <sup>6</sup> | Frequency of Reporting <sup>6</sup> | Frequency of Publication |
|--|-------------------------------|------------------------|--------------------------------|-------------------------------------|--------------------------|
| Exchange Rate  | 11/17/2021                    | 11/17/2021             | D                              | D                                   | D                        |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>            | 9/30/2021                     | 10/31/2021             | M                              | M                                   | NA                       |
| Reserve/Base Money   | 9/30/2021                     | 11/22/2021             | D                              | M                                   | NA                       |
| Broad Money  | 9/30/2021                     | 11/22/2021             | D                              | M                                   | NA                       |
| Central Bank Balance Sheet   | 9/30/2021                     | 11/22/2021             | D                              | M                                   | NA                       |
| Consolidated Balance Sheet of the Banking System   | 9/30/2021                     | 11/22/2021             | A                              | A                                   | A                        |
| Interest Rates <sup>2</sup>  | 11/8/2021                     | 11/8/2021              | D                              | D                                   | NA                       |
| Consumer Price Index   | 10/31/2021                    | 11/09/2021             | M                              | M                                   | M                        |
| Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup> | NA                            | NA                     | NA                             | NA                                  | NA                       |
| Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government              | 8/31/2021                     | 10/12/2021             | M                              | M                                   | NA                       |
| Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>                         | 6/30/2021                     | 10/12/2021             | A                              | A                                   | NA                       |
| External Current Account Balance   | 6/30/2021                     | 10/12/2021             | M                              | M                                   | NA                       |
| Exports and Imports of Goods and Services  | 8/31/2021                     | 10/12/2021             | M                              | M                                   | M                        |
| GDP/GNP  | 12/31/2020(A)<br>6/30/2021(Q) | 9/9/2021<br>11/10/2021 | Q,A                            | Q,A                                 | Q,A                      |
| Gross External Debt  | NA                            | NA                     | NA                             | NA                                  | NA                       |
| International Investment Position  | NA                            | NA                     | NA                             | NA                                  | NA                       |

<sup>1</sup> 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.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic-bank, and domestic non-bank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

## 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](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>