

June 24, 2021

The Acting Chair's Summing Up
Kenya—First Reviews of the Extended Arrangement Under the
Extended Fund Facility and an Arrangement Under the Extended
Credit Facility and Requests for Modifications of Performance
Criteria and Structural Conditionality
Executive Board Meeting 21/64
June 23, 2021

Executive Directors welcomed Kenya's progress under the Extended Fund Facility and Extended Credit Facility arrangements, despite challenging circumstances. They emphasized that steadfast commitment to program objectives and maintaining momentum of structural reforms will be necessary for sustained and inclusive recovery. Directors recognized the significant challenges in the vaccination program, including global vaccine supply constraints, while noting that its successful implementation remains key to economic recovery.

Directors commended the authorities' strong measures to reduce debt vulnerabilities. They welcomed the improved primary balance targeted in the draft FY21/22 budget, which carries forward ongoing fiscal consolidation efforts while maintaining support to key economic sectors affected by the pandemic. They commended the authorities' commitment to meet their FY21/22 tax targets, including by bringing forward contingency tax measures if the legal challenge to the corporate minimum tax is sustained, or its yield substantially reduced. Looking ahead, Directors emphasized that reducing debt vulnerabilities and making room for needed social and development spending requires improving spending efficiency and undertaking further tax policy and revenue administration measures. They noted that the new proposed debt anchor would strengthen Kenya's legal framework on indebtedness and help reduce debt vulnerabilities.

Directors encouraged the authorities to push ahead with structural reforms. They welcomed the significant progress made in assessing the financial situation of SOEs and emphasized the need to build on this effort to identify least-cost approaches to reduce SOEs' liquidity gaps and budgetary financing needs, while delivering more effective oversight. Directors stressed the importance of strengthening fiscal governance, advancing anti-corruption work, and enhancing the AML/CFT framework to bolster accountability and confidence. They welcomed publication of comprehensive audits of COVID-19 expenditures and looked forward to planned disclosure of beneficial ownership information of companies awarded procurement contracts.

Directors commended the Central Bank of Kenya's (CBK) proactive policy response. They supported maintaining an accommodative monetary policy stance as long as inflation and inflation expectations remain well-anchored within the target band, while allowing the shilling to act as a shock absorber. They looked forward to the envisaged plans to enhance the monetary policy framework. Directors noted that the pandemic has exacerbated preexisting bank asset quality issues and called for maintaining close supervision of credit risks and provisioning.