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FOR AGENDA

EBS/83/219

CONFIDENTIAL

October 6, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Kenya - Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a review of the stand-by arrangement for Kenya. A draft decision appears on pages 26 and 27.

It is proposed to bring this subject to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Jiménez, ext. 73707.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

KENYA

Review of Stand-By Arrangement

Prepared by the African and the Exchange and Trade Relations Departments

(In consultation with other Departments)

Approved by J.B. Zulu and W.A. Beveridge

October 5, 1983

I. Introduction

A mission 1/ visited Kenya between July 31 and August 11, 1983 for discussions relating to the first of two reviews called for under the current stand-by arrangement. On March 21, 1983 an 18-month stand-by arrangement for Kenya in an amount equivalent to SDR 175.95 million, representing 170.0 percent of Kenya's quota, was approved by the Executive Board (EBS/83/41, 2/23/83). So far Kenya has made two purchases totaling SDR 73.40 million. The third purchase amounting to SDR 28.2 million is subject to the present review. As of August 31, 1983 the Fund's holdings of Kenya shillings amounted to SDR 453.3 million (437.96 percent of quota) including SDR 63.7 million (61.5 percent of quota) under the enlarged access and SDR 94.9 million (91.69 percent of quota) under the special facilities. The full utilization of the current stand-by arrangement envisaged for July 1984 would increase the Fund's holdings of Kenya shillings to SDR 510.5 million (493.2 percent of quota) or SDR 441.4 million (426.5 percent of quota) excluding holdings under special facilities (Table 1). Borrowed resources would total SDR 166.4 million (160.7 percent of quota). The last Article IV consultation discussions with Kenya were carried out by the Executive Board on March 21, 1983.

The background to recent economic developments in Kenya and the performance to date under the current program is reviewed in Section II. The targets, assumptions, and principal elements of the stabilization program for the next fiscal year are described in Section III, while the staff appraisal and the proposed decision are contained in Section IV.

No modification is being requested to the performance criteria established and approved by the Executive Board last March.

1/ The staff team consisted of Messrs. J.M. Jiménez (head-AFR), J. Simpson (AFR), D. Lipton (ETR), and B. Sarr (EP-AFR), and Mrs. Y. Coker (secretary-AFR).

Table 1. Kenya: Estimates of Purchases and Repurchases and Fund Holdings of Kenya shillings, 1983-84

	Phasing of purchases	Actual or scheduled repurchases		Fund holdings			
		Including special facilities	Excluding special facilities	Including special facilities	Excluding special facilities	Including special facilities	Excluding special facilities
	(In millions of SDRs)					(Percent of quota)	
1983							
January	--	1.0	1.0	411.1	290.0	397.2	280.2
February	--	8.8	--	402.3	290.0	388.7	280.2
March	45.2 1/	--	--	447.5	335.2	432.4	323.9
April	--	2.2	2.2	445.3	333.0	430.3	321.8
May	28.2 1/	8.8	--	464.7	361.2	449.0	349.0
June	--	--	--	464.7	361.2	449.0	349.0
July	--	2.8	2.8	461.9	358.4	446.3	346.3
August	--	8.6	--	453.3	358.4	438.0	346.3
September	28.2	--	--	481.5	386.6	465.2	373.5
October	--	2.2	2.2	479.3	384.4	463.1	371.4
November	28.2	8.6	--	498.9	412.6	482.0	398.7
December	--	--	--	498.9	412.6	482.0	398.7
1984							
January	--	4.4	4.4	494.5	408.2	477.8	394.4
February	--	8.6	--	485.9	408.2	469.5	394.4
March	--	1.7	1.7	484.2	406.5	467.8	392.8
April	23.0	3.7	3.7	503.5	425.8	486.5	411.4
May	--	8.6	--	494.9	425.8	478.2	411.4
June	--	5.5	5.5	489.4	420.3	472.9	406.1
July	23.3	2.2	2.2	510.5	441.4	493.2	426.5
August	--	8.6	--	501.9	441.4	484.9	426.5
September	--	5.5	5.5	496.4	435.9	479.6	421.2
October	--	3.7	3.7	492.7	432.2	476.0	417.6
November	--	--	--	492.7	432.2	476.0	417.6
December	--	5.5	5.5	487.2	426.7	470.7	412.3

Sources: Phasing in the stand-by arrangement; and data provided by the Treasurer's Department.
1/ Purchase carried out.

The staff has kept in close contact with the World Bank on developments in Kenya, particularly on the progress being made under the second Structural Adjustment Loan (SAL). The final tranche of this loan (US$50 million) is expected to be disbursed during the remainder of the program.

II. Background and Review of Performance Under Stand-By Arrangement

In November-December 1982 the Government of Kenya put in place a significantly reinforced adjustment program. This program and the external support provided as a result of the Donors' Conferences (London 1982 and Nairobi 1983) provided the basis for an 18-month stand-by arrangement that was approved by the Executive Board in March 1983 (EBS/83/41, 2/23/83). In December the exchange rate was depreciated by 15 percent (in SDR terms), with the impact being passed on to domestic prices. Interest rates were lifted by about 2.5-3 percentage points, bringing most deposit rates to real positive levels. Additional goverment expenditure and revenue measures were announced to achieve a further reduction in the overall deficit to K Sh 3.7 billion, or to 4.7 percent of GDP, and a fall by about half in bank financing. Credit policies were tightened, and an increasing proportion of credit was oriented toward production. The authorities agreed to adopt a flexible exchange rate policy and to put into place a new import system early in the program period. This array of policy actions was intended to bring about a further reduction in the external current account deficit in 1983, with additional reduction foreseen in the two subsequent years, so that the balance of payments would be self financed by 1985 on the basis of expected capital inflows.

The authorities have acted with determination in implementing the Fund-supported program, complying with the performance criteria specified for March and June 1983 (Tables 2 and 3) and exceeding the program's objectives in many instances, despite the various problems encountered. Revenue collections in 1982/83 fell considerably below the expected level, due to the continued sluggishness of the economy, a reduction of import licensing prior to the program, and the losses from the attempted coup in August 1982 which affected income and sales taxes. These divergencies forced the authorities to take additional fiscal measures at the beginning of March 1983. Expenditures were reduced by about 10 percent from the yearly total expenditure level, leading to a second year in which real expenditure was reduced by an important margin. Development expenditure faced the most severe cuts, falling by 24 percent of the programmed level, although current expenditure fell by 6 percent. During the year strict wage and hiring policies were in effect. Even after these actions the authorities faced difficulties. Important income and sales tax payments are due on June 30, and it is difficult to estimate with accuracy the amount that spills over into July. In addition, the

Table 2. Kenya: Selected Economic and Financial Indicators, 1981-84

	1981	1982		1983		1984
	Actual	Revised program	Actual	Revised program	Estimate	Program
	(Annual percent changes, unless otherwise specified)					
National income and prices						
GDP at constant prices	4.0	4.2	2.7	3.0	3.3	4.0
GDP deflator	11.0	15.4	14.8	12.2	14.6	10.0
Consumer prices	20.3	14.0	14.4	13.0	13.0	10.0
External sector (on the basis of SDRs)						
Exports, f.o.b.	-4.1	11.3	-6.2	7.5	-0.1	9.3
Imports, c.i.f.	-8.5	0.4	-17.2	0.8	-7.9	9.9
Non-oil imports, c.i.f.	-8.4	2.1	-16.9	0.7	-2.3	13.6
Export volume	-5.1	6.0	-1.1	3.0	-0.1	2.9
Import volume	-13.3	-3.0	-17.3	-4.0	-8.5	5.1
Terms of trade (deterioration -)	-3.7	1.0	-5.9	-1.0	-0.7	2.1
Nominal effective exchange rate (depreciation -)	-15.6	...	-15.0	...	-2.5	...
Real effective exchange rate (depreciation -)	-7.9	...	0.7	...	--	...
Government budget 1/						
Revenue and grants	20.3	10.1 2/	12.4	17.5	8.8	9.7
Total expenditure	24.7	4.9 2/	8.4	11.0	-3.5	12.2
Money and credit 1/						
Domestic credit	24.2	25.2 2/	26.9	14.8	6.4	14.0
Government	83.4	50.3 2/	65.5	20.3	0.7	17.6
Private sector	9.5	15.3 2/	15.9	15.6	6.2	12.9
Money and quasi-money (M_2)	7.1	7.5 2/	9.1	13.3	11.0	9.8
Velocity (GDP relative to M_2) 3/	3.23	3.68 2/	3.60	3.68	3.76	3.98
Interest rate (annual rate) 3/						
Savings deposit	10.00	...	12.50	12.50	12.50	12.50
Average time deposit	10.75 to 12.50	...	13.75 to 15.50	13.75 to 15.80	13.75 to 15.50	13.75 to 15.80
Maximum lending rate	14.00	...	16.00	16.00	16.00	16.00
	(In percent of GDP)					
Central government current account surplus/deficit (-)	0.6	2.5 2/	1.1	2.1	1.7	0.9
Central government overall budget deficit						
Including grants	8.7	6.4 2/	7.2	4.7	3.3	3.6
Excluding grants	9.4	7.3	8.5	6.7	5.0	5.2
Domestic bank financing	4.5	1.6 2/	4.8	1.3	1.2	2.5
Foreign financing	4.9	2.6 2/	1.7	2.4	1.7	1.1
Gross domestic investment	28.3	22.0	22.3	20.0	20.0	20.0
Gross domestic savings	19.3	16.4	16.9	15.2	15.0	16.2
External current account deficit 4/						
Including grants	10.6*	8.0*	6.2*	5.9*	3.4*	3.6*
Excluding grants	11.7*	8.9*	7.4*	7.1	5.1*	5.1*
External debt	38.8	37.6	35.9	37.3	32.9	30.7
inclusive of use of Fund credit						
External debt	42.3	39.4	41.1	43.6	37.9	36.1
Debt service ratio 5/	20.6	14.9	23.7	22.4	28.7	28.7
Interest payments 5/	8.4	7.9	11.0	12.7	10.8	10.0
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments 6/	-198.0**	-169.0**	-151.0**	-42.0	-1.0**	-24.0*
Gross official reserves (months of imports)	1.4	1.5	1.8	1.4	2.0	2.0
External payments arrears	--	--	--	--	--	--

1/ Fiscal year ending June 30.
2/ Refers to stand-by program approved on January 8, 1982.
3/ Level in percent.
4/ Asterisk * reflects severe constraint on foreign exchange availability.
5/ In percent of exports of goods and services.
6/ Double asterisk ** reflects severe constraint on foreign exchange availability.

Table 3. Kenya: Quantitative Performance Criteria, December 1982-June 1983

(In millions of Kenya shillings)

	1982	1983	
	Dec.	March	June
Total domestic bank credit 1/2/			
Ceiling	--	25,719	24,995
Actual	25,610	23,637	22,990
Net bank credit to Government 1/2/			
Ceiling	--	8,199	7,033
Actual	9,196	6,999	5,888
New external borrowing contracted or guaranteed by the Government (cumulative) 3/			
1-12 years' maturity			
Ceiling	--	150	150
Actual		--	--
1-5 years' maturity			
Ceiling	--	100	100
Actual	--	--	--

Sources: Letter of Intent, January 28, 1983.

1/ The definition of domestic bank credit differs from that of the monetary survey in that the former includes the domestic currency counterpart of drawings on Eurocurrency loans.

2/ The definition of net bank credit to the Government differs from that of the monetary survey in that the former includes the domestic currency counterpart of drawings on Eurocurrency loans and excludes the operations of the Cereals and Sugar Finance Corporation (CSFC). This agency maintains its general account with the Treasury, rather than with a commercial bank; therefore, its operations influence the Government's net position with the banking system, reducing net government credit when the CSFC receives payments, and increasing net government credit when it purchases cereals. Consequently, it is necessary to exclude these operations in order to isolate developments in net government credit due solely to budgetary operations. However, the bank credit utilized by the CSFC is captured in the overall credit ceiling, where this adjustment is not made. For an exact definition of net domestic bank credit and net bank credit to Government see EBS/80/125, pp. 25-27.

3/ In millions of U.S. dollars.

authorities faced a substantial amount of uncertainty as to the timing of disbursements of external resources. Even as the fiscal year drew to a close, many donors were unable to indicate with accuracy the dates of likely disbursement. On the basis of these uncertainties, it became very difficult for the authorities to plan their expenditure program, and in May they adopted an even more cautious expenditure policy by delaying expenditure commitments until they could be matched by an inflow of resources. Following the exhortations made by the Treasury to the revenue collecting units, revenue collections proved greater than assumed. Also, donors were able to transfer a substantial amount of resources prior to the close of the fiscal year. In fact, one donor disbursed US$28 million two days prior to the closing of the fiscal year. These developments led to a lower cash deficit than estimated in the program, as some expenditures did not have time to clear the Government's bank accounts before the close of the year and some expenditures were only made in early July. Consequently, although the program called for an overall deficit equivalent to 4.7 percent of GDP, the actual cash deficit as reflected from financing sources reached only 3.0 percent (Table 4). As a result, net domestic credit to the Government fell slightly during the year, compared to a programmed expansion equivalent to 5.5 percent of the initial money stock. It is estimated that the gross transfers of expenditures into the subsequent fiscal year totaled about 0.8 percent of GDP. However, given that a float of about 0.4 percent of GDP was transferred into 1982/83 from the previous fiscal year, the net increase in the float item is only equivalent to 0.4 percent of GDP. Thus, taking into account the net increase in the float, the deficit was only 3.4 percent, a substantial improvement compared with the previous year and in comparison with the program target. Net foreign financing was considerably less than programmed, reflecting the major reduction in development expenditures effected during the year.

The rate of economic expansion slowed down markedly, particularly in the second half of 1982, from what had been estimated. At the time the program was negotiated, it had been projected that GDP at constant prices would rise by about 4.2 percent in 1982. Data now available indicate that the growth rate barely reached 2.7 percent, with growth in 1983 possibly rising to slightly over 3 percent. In part, the lower than expected growth relates to the difficulties encountered beginning in the second half of 1982: shortages of foreign exchange led to a substantial curtailment in the approval of import licenses and the uncertainties arising from the attempted coup. The magnitude and intensity of the fiscal and other measures instituted in November-December no doubt also affected the tempo of economic activity in the first half of 1983. Even though there has been a major relaxation in the issuing of import licenses in the first six months of 1983, with licenses approved by the Central Bank rising by 23 percent in SDR terms, the actual utilization of licenses fell substantially below expectations, giving further indication as to the depressed state of the domestic economy. In framing the 1982/83 program, an increasing proportion of domestic credit had been set aside

Table 4. Kenya: Summary of Central Government Financial Operations, 1980/81-1983/84

	1980/81	1981/82	1982/83 Program	1982/83 Prov.	1983/84 Est.
	(In millions of Kenya shillings)				
Total revenue and grants	14,789	16,623	19,540	18,085	19,842
Total revenue	14,338	15,737	17,970	16,729	18,419
Foreign grants	451	886	1,570	1,356	1,423
Total expenditure and net lending	19,717	21,381	23,200	20,630	23,144
Recurrent expenditure	13,984	15,031	16,380	15,423	17,575
Development expenditure and net lending	5,733	6,350	6,820	5,207	5,469
Overall deficit (Treasury accounts)	-4,928	-4,758	-3,660	-2,545	-3,302
adjustment to financing basis 1/	-439	469	--	231	--
Overall cash deficit (financing sources)	-5,366	-4,289	-3,660	-2,314	-3,302
(In percent of GDP)	(9.5)	(6.5)	(4.7)	(3.0)	(3.6)
Financing	5,366	4,289	3,660	2,314	3,302
Foreign (net)	2,764	1,108	1,850	1,307	1,030
Domestic (net)	2,602	3,181	1,810	1,007	2,262
Nonbank	(1,028)	(1,487)	(785)	(1,127)	(1,072)
Bank and CSFC	(1,574)	(1,694)	(1,025)	(-120)	(1,200)
Overall deficit excluding grants (In percent of GDP)	(9.4)	(8.5)	(6.7)	(5.0)	(5.2)
	(In percent of GDP)				
Memorandum items:					
Total revenue and grants	26.0	25.0	25.0	23.1	21.7
Of which: revenue	25.4	23.7	23.1	21.4	20.0
Total expenditure	34.7	32.3	29.8	26.4	25.4
Foreign financing	4.9	1.7	2.4	1.7	1.1
Domestic financing	4.5	4.8	2.3	1.2	2.5
Of which: Bank and CSFC	2.7	2.5	1.3	--	1.3

Source: Based on information provided by the Treasury.

1/ The adjustment factor arises because financing data are derived from different sources than revenue and expenditure information. It includes "float" items.

for the private sector, in order to facilitate the resurgence of economic activity, but actual utilization fell considerably short of expectations. During the fiscal year 1982/83 nonbudgetary credit rose by 7.7 percent of the initial money stock compared to an expansion of 11.6 percent permitted in the program. This outturn, in conjunction with a net repayment of bank credit by the Central Government, resulted in an expansion of net domestic credit for the banking system equivalent to only 7.4 percent of the initial money stock compared to a programmed expansion of 17.1 percent (Table 5). These developments were accompanied by a major improvement in the net foreign asset position of the banking system, largely in the second half of the fiscal year. At the same time, the growth rate in money and quasi-money increased slightly to about 11 percent at the end of June 1983 compared to 9 percent in the previous fiscal year.

The growth in consumer prices decelerated markedly in 1982 to about 14.4 percent compared to 20.4 percent in 1981 (Appendix Table I). This reduction was influenced by plentiful crops, which led to the food index rising by less than 10 percent in 1982 compared to almost 19 percent in the previous year. Nonfood items increased by under 18 percent compared to 21 percent in 1981. The decelerating trend is expected to continue in 1983; the 12-month increase in the consumer index as of June 1983 had fallen further to 11.5 percent. This slowdown took place even though various producers' prices and other farmgate prices had been raised during this period. Moreover, the index is still reflecting the pass-through of the exchange rate actions carried out in December. Fuel and power also went up, as domestic retail prices for gasoline were increased in March 1983 and a pass-through was allowed in other transportation costs. The drinks and tobacco index rose substantially, due to the rise in prices of beer, other spirits, and cigarettes resulting from the increase in excise taxes in June 1983.

Largely as a result of the lower level of economic activity and the tightening of financial policies, the balance of payments had a more favorable outturn than previously estimated. The Government of Kenya had foreseen a gradual reduction in the current account deficit (including grants) from the 10.7 percent recorded in 1981 to about 8 percent in 1982, further to under 6 percent in 1983, and to about 5 percent in 1984. However, following the unexpectedly larger reduction in the current account deficit to 6.2 percent in 1982, a further fall in the current account deficit is foreseen for 1983 to 3.4 percent, largely made possible by a further reduction in imports (Table 6). On the basis of this outturn during 1983, the overall balance is likely to be in virtual equilibrium, rather than being in deficit by SDR 42 million as projected in the program, despite a further small reduction in the net capital inflow. Consequently, gross official reserves will increase during the year to the equivalent of two months' imports compared to a previous target of 1.4 months. The projected outturn for 1983 assumes that, in the second half of the year, there will be a recovery in economic activity, which will lead to a higher utilization of domestic credit and to a pickup in import arrivals.

Table 5. Kenya: Monetary Survey, 1981-83

(In millions of Kenya shillings)

	1981	1982				1983		1983 Program 1/		
	Dec.	March	June	Sept.	Dec.	March	June	March	June	Dec.
Net foreign assets	514	-452	-919	-1,945	-1,578	-1,143	-123	-1,500	-1,400	-1,466
Total domestic credit	19,668	21,219	21,599	24,441	25,344	23,637	22,990	25,558	24,794	27,510
Government (net)	6,178	7,553	7,028	9,585	9,988	8,015	6,973	9,219	8,053	...
Public entities	465	370	626	585	999	1,047	1,196	600	626	...
Private sector	13,025	13,296	13,945	14,271	14,357	14,575	14,821	15,739	16,115	...
Other items (net)	1,356	1,828	1,974	2,625	2,324	1,078	2,099	2,600	2,200	2,200
Money and quasi-money	18,826	18,939	18,706	19,871	21,442	21,416	20,768	21,458	21,194	23,844
Growth rate (in percent)	(12.9)	(9.9)	(9.1)	(11.3)	(13.9)	(13.0)	(11.01)	(13.3)	(13.3)	(12.1)
Memorandum items:										
Changes in credit in relation to broad money 12 months earlier (in percent)										
Total domestic credit	24.3	22.2	26.7	28.5	29.3	12.6	7.4	22.9	17.1	10.1
Government (net)	16.2	14.4	14.5	16.2	20.3	2.4	-0.3	8.8	5.5	--
Public entities	-0.1	-0.4	1.0	1.0	2.8	3.5	3.0	1.2	--	--
Private sector	7.4	8.2	11.2	11.3	7.0	6.7	4.7	12.9	11.6	--

Sources: Data provided by the Kenyan authorities; and staff estimates.

1/ EBS/83/41, 2/23/83.

Table 6. Kenya: Balance of Payments Summary, 1981-85 1/

	1981	1982	1983 Program	1983 Proj.	1984 Proj.	1985 Proj.
	(In millions of SDRs)					
Current account	-606	-369	-352	-205	-246	-266
Trade balance	-935	-674	-640	-554	-613	-637
Imports, c.i.f.	(-1,850)	(-1,532)	(-1,625)	(-1,411)	(-1,550)	(-1,664)
Exports, f.o.b.	(915)	(858)	(985)	(857)	(937)	(1,027)
Services (net)	248	233	205	237	256	280
Transfers (net)	81	72	83	112	111	91
Capital account	401	218	310	204	222	266
Private long-term capital	137	90	116	102	108	133
Official long-term capital	175	168	161	74	121)	133
Short-term capital 2/	89	-40	33	28	-7)	
Allocation of SDRs	7	--	--	--	--	--
Overall balance	-198	-151	-42	-1	-24	--
Financing (increase in assets)	198	151	42	1	24	--
Gross official reserves	176	7	-13	-58	-21	-41
Use of Fund credit 3/	23	135	55	59	45	41
Other liabilities	-1	9	--	--	--	--
Memorandum items:	(Ratios in percent)					
Current account/GDP						
Including grants	10.6	6.2	5.9	3.4	3.6	3.5
Excluding grants	11.7	7.4	7.1	5.1	5.1	4.4

Sources: Data provided by the Kenyan authorities; and staff estimates.

1/ Conversion rates: K Sh 10.60 = SDR 1 for 1981; K Sh 12.06 = SDR 1 for 1982; K Sh 14.23 = SDR 1 for 1983; and K Sh 14.41 = SDR 1 for 1984 and 1985.

2/ Including errors and omissions and valuation adjustments.

3/ The projections for 1984-85 assume a subsequent program after the current one is completed which would grant Kenya purchases in the 18 months ending December 1985 equivalent to 120 percent of the new quota. Given the scheduled repurchases, net access will rise by about 30 percent of new quota.

In June 1983 the Government of Kenya announced the introduction of a new import system as called for under the current program. The elements of the import system have been reviewed in conjunction with the World Bank 1/, as this item formed part of the conditionality of the present SAL arrangement and the current stand-by. Under the new system, two schedules have been established under which licenses are granted virtually automatically. One group contains items largely of high priority for production, while the other contains some important items such as petroleum products and fertilizers, which are freely importable only by approved importers. It is estimated that these two groups are equivalent to about two thirds of expected total import demand. Two additional import categories, containing about 30 percent of expected demand, will be subject to allocations, which aim at meeting a high proportion of expected demand. Importers receiving allocations for these categories may import any item on the lists. A final group, which includes largely low-priority consumer goods (about 6 percent of expected import demand), will be subject to quotas. Items in the more restricted categories have been grouped into segments which would be shifted, automatically, as the level of the gross reserves of the Central Bank improves. The Government expects that this procedure will allow for a further relaxation of the system during the current fiscal year. Overall, the expected level of imports under this system is very close to that which is financeable on the balance of payments basis. Given developments so far in 1983, in which an important proportion of approved import licenses have not been utilized, the degree of restraint imposed by the system does not appear very large.

After the depreciation of the Kenya shilling in December 1982, the continued linkage to the SDR together with a higher degree of domestic inflation than in many partner countries, resulted in a slight appreciation of the real effective exchange rate in the earlier part of 1983. In accordance with their commitment of maintaining a flexible exchange rate policy, the Government of Kenya depreciated the exchange rate of the Kenya shilling by about 2.5 percent between June-July 1983 in order to recuperate the real effective exchange rate obtained at the end of 1982 (Chart 1). The authorities are committed to continuing this policy.

III. Outline of 1983/84 Program

1. Allocation of resources

The thrust of the program for FY 1983/84 aims at consolidating the progress achieved in the previous fiscal year on the financial side, while setting the groundwork for a recovery in the growth rate and a further reduction in inflationary pressures. The economic and financial

1/ A Fund staff member participated in the IBRD review.

policies aim at improving the growth of GDP to about 3.3 percent in 1983 and further to about 4 percent in 1984 (Table 7), while concomitantly reducing the rise in consumer prices to 13 percent in 1983 and to 10 percent in 1984.

The gradual recovery of the growth rate will be facilitated by the many supply oriented measures already undertaken. The growth rate for 1983 will be affected by a projected slowdown in the rate of growth in agriculture, following disappointing rains (April-June). Half yearly returns for some of the main crops indicate a further increase in the output of maize but likely declines in the production of sugar cane, pyrethrum, sisal, and cotton. Activity in the construction sector is also anticipated to stagnate, given the small increase in government investment and a wait-and-see attitude by investors prompted by the difficult economic situation in general and the elections scheduled for September 1983. The service sector, as a whole, will also lack buoyancy, as the improved growth performance expected in the tourism sector will be overshadowed by declines in the growth rates of transport activity and government services. However, after a difficult period, the manufacturing sector is expected to record a higher growth rate in 1983, due to the improved availability of inputs, the rationalization of the import and tariff systems, and some recovery in Kenya's export markets. Performance in the first half of 1983, as measured by the few available indicators, shows a disappointing outturn and the attainment of the growth rate targeted for 1983 will depend to a large extent on an upturn of activity in the second half of 1983.

For 1984 a gradual recovery in activity in most sectors is projected, with the agriculture, manufacturing, and government sectors recording gains. The improvement in activity in the first two sectors is expected to be aided by a recovery in export growth, following three years of declines. In addition, the decline in gross domestic investment is expected to level out, while gross domestic saving is projected to begin to recover from the low level reached in 1983. The policies in place for 1983 should lead to some recovery, but employment creation is likely to remain below the level necessary to provide jobs for all entrants into the employment market through 1984. Increases in gross earnings are likely to remain small until the economy recovers.

2. Fiscal policy

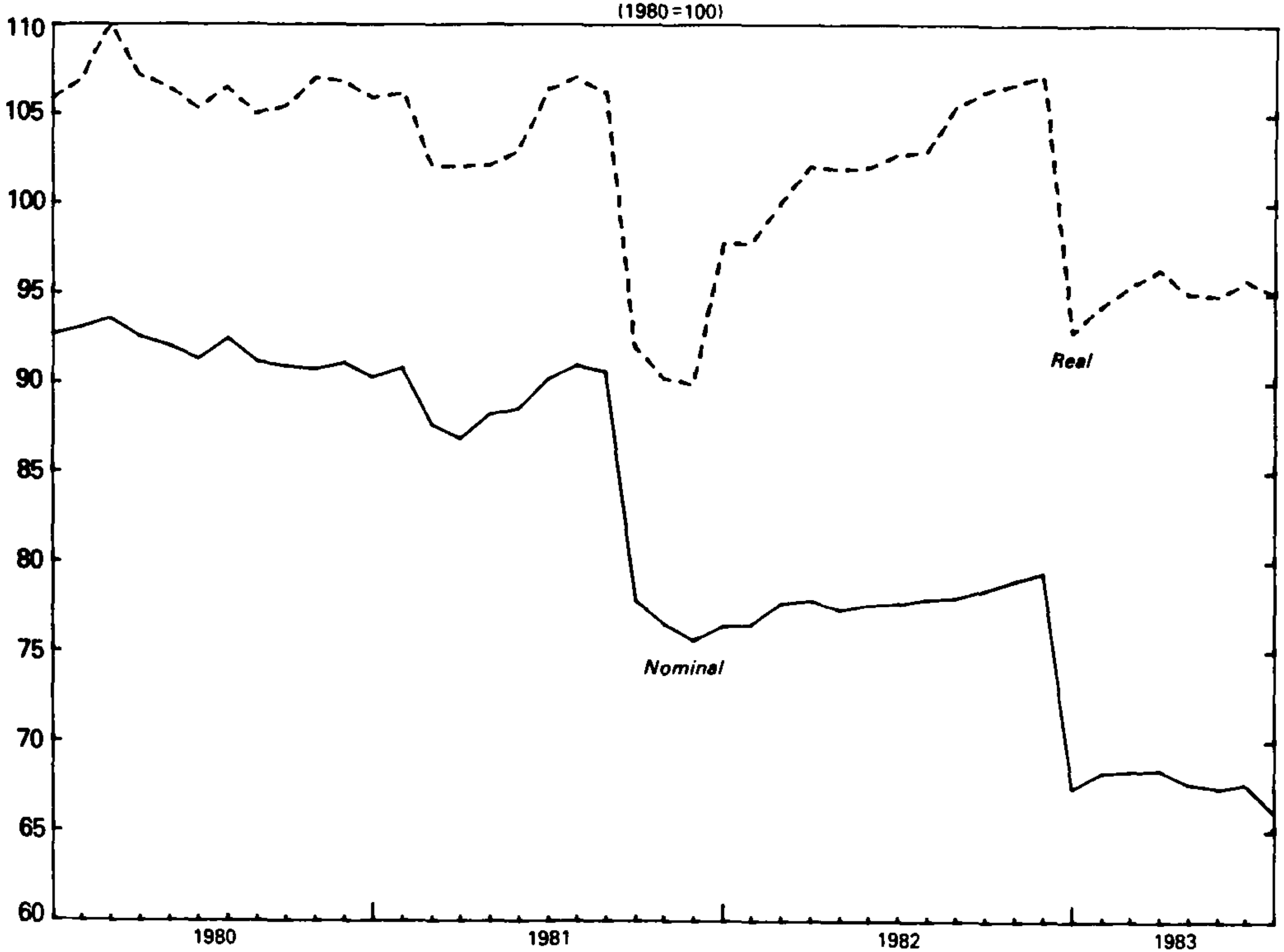
The fiscal program for 1983/84 envisages a moderate increase in total expenditure and net lending. The overall deficit is expected to rise to the equivalent of 3.6 percent of GDP. However, given the concerns of the Kenyan authorities as to the unsatisfactory trend of development expenditures the program provides a degree of flexibility. If, during the second review of the program, it is clear that additional foreign concessionary or nonbank financing is available to a greater extent than presently estimated, overall expenditures would be allowed to rise by a maximum of K Sh 400 million, resulting in an overall deficit objective of 4.1 percent

CHART 1

KENYA

TRADE WEIGHTED NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES OF THE KENYA SHILLING, JANUARY 1980 - JULY 1983

(1980=100)



Source: IMF Data Fund, and staff estimates.

Table 7. Kenya: Summary of 1983/84 Program

	1983	1984
	Calendar years	
Assumptions		
Moderate expansion in world economy		
Terms of trade gain (in percent per year)	-0.7	2.1
Real effective exchange rate	--	--
Unchanged time deposit rates		
Objectives (in percent)		
GDP at constant prices	3.3	4.0
GDP deflator	14.6	10.0
Consumer prices	13.0	10.0
Balance of payments (in percent of GDP)		
Current account deficit (including grants)	3.4	3.6
Current account deficit (excluding grants)	5.1	5.1
	1983/84 Fiscal year	
Overall budgetary deficit (in percent of GDP) 1/		
Including grants	3.6 - 4.1 2/	
Excluding grants	5.1 - 5.5	
Domestic credit	14.0	

1. Real economy

Implementation of new import system. Adequate credit availability to private sector. Maintenance of incentives in export sector. Wage increases limited to a fraction of rise in cost of living. Implementation of new medium-term investment program and improved monitoring of public investment.

2. Public finance

Continuation of tight expenditure policy involving a further reduction in ratio of total outlays to GDP. Further improvement in efficiency of public enterprises.

3. Monetary policy

Growth of net domestic assets limited to 14 percent with appropriate quarterly ceilings and subceiling on net credit to government (performance criteria). Review of financial system, aimed at improved control of system by monetary authorities.

4. External borrowing

New borrowing with a maturity of 1-12 years limited to US$150 million, with subceiling of US$100 million for new borrowing with maturity of 1-5 years.

1/ Including extraordinary net carryover from previous fiscal year estimated at 0.4 percent of GDP.

2/ Deficit may be allowed to increase to this level, if additional foreign concessionary or nonbank financing is generated.

of GDP. Taking into account that about 0.4 percent of GDP is related to the carry-over of expenditures from the previous fiscal year, the overall deficit resulting from 1983/84 operations would be equivalent to a range of 3.2-3.7 percent of GDP, a level substantially below the target originally specified in the program of 4.0-4.5 percent.

Under the lower deficit estimate, total expenditure and net lending are projected to rise by about 12 percent in 1983/84 but about 60 percent of the increase will be accounted for by higher interest payments on the Government's debt, largely reflecting the rise in domestic interest rates put into effect last December and the large increase in the debt in the last few years. Under the higher overall deficit estimate, total expenditure and net lending would rise by about 14 percent, but increased interest payments would still be over 50 percent of the increase. Under both scenarios total expenditures will rise less than the growth in nominal GDP, and there would be a further reduction in the ratio of total expenditures to GDP. Recurrent expenditures, excluding interest payments, are to rise by about 4 percent, while development expenditures will increase by about 5 percent under the lower expenditure estimate. Consequently, for the third year in a row, there would be a reduction in the volume of both development and recurrent expenditures other than interest payments. This would be the case even if the higher level of expenditure takes place. The Government does not plan to grant a general wage increase in 1983/84 and will continue to maintain a very restrictive hiring policy. The administrative measures put into effect in 1982/83, such as the removal of official automobiles from senior public servants, which led to important savings in outlays for goods and services will remain in force.

Recurrent revenues and grants are estimated to rise by 9.7 percent in 1983/84 compared to 8.8 percent in 1982/83. Recurrent revenue will increase by 10.1 percent. It is expected to fall once more in relation to GDP, in part because some income tax revenue normally collected in early July was actually received in June, and thus fell into the 1982/83 fiscal year. Also a reduction in nontax revenue is foreseen as transfers from the rest of the public sector fall to a more normal level (Appendix Table II). New revenue measures were undertaken at the start of the new fiscal year and are estimated to yield K Sh 1,040 million on a gross basis and K Sh 440 million on a net basis. Among the measures was an increase in the general rate of sales tax from 15 to 17 percent. Partly offsetting the increase in sales tax collections was the lowering of import duties that were above 30 percent by an average of 14.7 percent of the existing rate. The main purpose of this reduction is to grant relief to manufacturers who export their products, as every item on which duty was reduced faced a corresponding increase in sales tax when sold domestically. In addition, the air passenger tax and the banking registration fees were raised, while various administrative measures in the income tax, sales tax, and customs area were undertaken to assure the prompt receipt of tax revenue.

Foreign grants are expected to rise marginally by under 5 percent and to account for 7.2 percent of total revenues and grants, compared 7.5 per cent in the previous fiscal year. Thus, the proportion of for grants would be broadly maintained in the current fiscal year, largely reflecting continued disbursement of resources raised during the Donor Conferences. The domestic financing of the budget at K Sh 2.3 billion equivalent to 2.5 percent of GDP, and the amount of bank financing inc under the program would be equivalent to about 5 percent of the initia money stock.

The budgetary accounts of Kenya have a rather marked seasonality, which involves a rapid increase of the overall budgetary deficit in th period through September, a further but much smaller increase through December, and then a large reduction in the subsequent two quarters. seasonality arises largely because revenues are particularly large in latter part of the year as a result of the payment of corporate taxes March and April. In addition, the receipt of foreign loans and grants also concentrated in the latter part of the year, because most of thes resources are based on the reimbursement of expenditures already carri out by the authorities. Consequently, the ceiling established on net credit to the Government takes into account this seasonal pattern, whi has also been confirmed on the basis of quarterly projections of the budgetary operations.

3. Monetary policy

The financial program for 1983/84 anticipates more rapid increase total domestic credit consistent with a moderate use of reserves accum lated in the first half of 1983, in line with the balance of payments projections. The ceiling on the overall credit expansion for December 1983 (Table 8) implies a target growth of broad money of only 8 percen compared to almost 14 percent in the preceding year. Such a target implies a rise in the velocity of circulation of money from an average 3.35 in 1982 to 3.66 in 1983, approaching the long-term level expected for Kenya. The overall growth of credit and money is expected to acce erate moderately in 1984, as private sector activity recovers, althougl the growth of broad money will continue to be lower than nominal GDP ar significantly lower than earlier envisaged in the program.

It is expected that credit to the private sector will expand sligh faster in the second half of 1983 than in the first half, rising by the equivalent of 8 percent of the initial money stock by December. Nevertheless, for 1983 as a whole, total net domestic credit will expand by the equivalent of only 5.0 percent of the initial money stock, as net credit to the government will record a reduction, partly offsetting the expansion of credit to the rest of the economy.

For fiscal year 1983/84, the program was framed on the basis of ar expansion of total domestic credit of 15 percent of the initial money

Table 8. Kenya: Monetary Survey, 1982-84

(In millions of Kenya shillings)

	1982	1983				1984	
	Dec.	March	June	Sept.	Dec.	March	June
				Projections		Projections	
et foreign assets	-1,578	-1,143	-123	-1,500	-1,468	-1,550	-1,473
otal domestic credit	25,344	23,637	22,990	25,495	26,420	26,550	26,111
Government (net)	9,988	8,015	6,973	8,770	8,970	8,600	8,173
Public entities	999	1,047	1,196	1,100	1,450	1,350	1,200
Private sector	14,357	14,575	14,821	15,625	16,000	16,600	16,738
ther items (net)	2,324	1,078	2,099	2,137	1,795	1,600	1,838
oney and quasi-money	21,442	21,416	20,768	21,858	23,157	23,400	22,800
Growth rate (in percent)	(13.9)	(13.0)	(11.01)	(10.0)	(8.0)	(9.3)	(9.8)
emorandum items:							
hanges in credit in relation to broad money 12 months earlier (in percent)							
Total domestic credit	30.1	12.6	7.4	5.3	5.0	13.6	15.0
Government (net)	20.3	2.4	-0.3	-4.1	-4.7	2.7	5.8
Public entities	2.8	3.5	3.0	2.6	2.1	1.4	--
Private sector	7.0	6.7	4.7	6.8	7.6	9.5	9.2

Sources: Data provided by the Kenyan authorities; and staff estimates.

stock, with the Government receiving about 38 percent of the expansion and the rest accruing to the private sector. The quantitative performance criteria for September 30 and December 31, 1983 are summarized in Table 9.

Table 9. Kenya: Quantitative Performance Criteria

(In millions of Kenya shillings)

	1983			1984
	June	September	December	June 1/
Total domestic bank credit				
Ceiling	--	25,495	26,420	26,111
Actual	22,990			
Net bank credit to Government 2/				
Ceiling	--	7,524	7,724	6,927
Actual	5,888			
New external borrowing contracted or guaranteed by the Government (cumulative) 3/				
1-12 years' maturity				
Ceiling	150	150	150	150
Actual	--			
1-5 years' maturity				
Ceiling	100	100	100	100
Actual	--			

Source: Letter of Intent, September 13, 1983.
1/ Credit ceilings for June 1984 are only indicative.
2/ Stand-by definition net of CSFC deposits and including Eurocurrency drawings. See Table 3, footnote 2.
3/ In millions of U.S. dollars.

Time deposit rates now range between 13.75 percent and 15.8 percent while the savings rate is 12.5 percent and the maximum lending rate has been fixed at 16.0 percent, following the actions undertaken last December. Consequently, time deposit rates are positive in real terms, and, with the projected reduction in the inflationary rate, savings deposit rate will also be positive by the end of the year. The authorities do not expect to alter the deposit rates at this time, although it is their feeling that the spread between the cost of funds to commercial banks and the actual lending rate is too large at this time and may warrant some reduction in the near future. Rates payable by nonbanks are higher than those paid by commercial banks, and the growth of nonbanks at the expense of banks has continued in 1983, although at a somewhat reduced rate.

The liquidity ratio was raised from 15 percent to 20 percent in February 1983 to soak up the excess liquidity available to banks. At the present time, commercial banks still have excess liquidity, but the margin over the statutory requirement is the equivalent of only 2 percent of deposits subject to the requirement, a level which the Central Bank considers adequate (Appendix Table III).

4. External policies

The current estimate for 1983 is that the current account deficit to GDP ratio will be 3.4 percent, compared with 11 percent in 1981. Adjustment to date has fallen largely on the level of imports which dropped by about 17 percent in 1982 and is expected to fall further by 8 percent in 1983. The large reduction that occurred in 1982 was brought about partially by a tightening of the import system. However, the exchange rate action in December 1982, together with the tariff changes implemented at that time, and the tighter monetary and fiscal policies in effect in 1983 have permitted a sharp reduction in import demand with a diminished reliance on quantitative restrictions. An important proportion of the reduction in imports has been borne by official imports, reflecting the fall in expenditure, particularly development outlays, which has taken place over this period.

After falling by about 6 percent in 1982, total exports are expected to stagnate in 1983, despite strong performances in tea and in nontraditional exports, as a result of a fall in coffee sales and exports of petroleum products. Coffee is being affected by a reduction in nonquota exports, while the fall in sales of petroleum products reflects reduction in crude oil imports and a lower availability of surplus petroleum products. Tea and nontraditional exports, such as horticulture, meat and meat products, hides and skins, and sisal, are benefiting from improved incentives and are projected to register important increases in export values in 1983.

An improvement in the service account is projected, largely as a result of larger earnings from tourism, investment income inflows, and other transportation.

For 1983 net transfers are expected to rise to SDR 112 million from SDR 72 million, largely as a result of a sharp jump in government grants arising from pledges received from the donors' conferences held in 1982 and early 1983. Although a large proportion of the resources were to be received in calendar year 1983, an overflow into 1984 is expected. It is, however, difficult to isolate the additional resources that arose from the conferences, as most donor countries have on-going aid programs with Kenya. The exceptional financing in the 18 months ending June 1984 is estimated to total at least SDR 65 million. At the inception of the program it had been assumed that most of the exceptional finance would have been in the form of soft loans, but as it turned out most of it has been in the form of grants. Therefore, in comparison with the original program, grants are now expected to be larger, while official capital inflows are projected to be smaller. Consequently, in 1983 net official capital is now estimated at SDR 74 million compared to SDR 168 million a year earlier. Apart from the shift in the nature of the exceptional financing, the reduced net official capital reflects a slowdown in the pace of public investment, following the fiscal measures adopted in March 1983. Of the expected amount, about SDR 47 million will emanate from the World Bank under the second Structural Adjustment Loan. On the other hand, private long term capital is expected to rise to SDR 102 million from SDR 90 million in 1982, as a result of the increase of investment incentives in the economy, and the expected pickup of activity late in the calendar year. On the basis of the above estimates, approximate equilibrium in the overall balance of payments is now projected.

The goal of Kenya's external policies, set out when the current program was formulated, was to reach a sustainable current account deficit by 1985. An examination of the likely availability of capital inflows to the Government and to public entities with government guarantee, of the likely net inflows of private capital and Fund repurchases indicates that a current account deficit to GDP ratio (including grants) of about 3.3-3.5 percent a year would be sustainable. Developments in 1982 and the estimated outturn for 1983 indicate that this target is attainable by 1985.

For the period 1984-85 a stronger expansion in export earnings is foreseen, given the incentives which have already been put into place. Continued growth in tea output is anticipated, although export prices will grow only marginally. In addition, a reversal in the fall of coffee sales is expected, brought about by small increases in volume and prices. However, the main source of the export expansion is projected to emanate from the nontraditional export products, that have benefited to an important extent from the recent exchange rate measures. Thus, a vigorous expansion of earnings from horticulture, cement, hides and skins, meat and meat products, soda ash, sugar, and manufacturing products is projected. Total export earnings are presently expected to rise by an average of about 9.5 percent per year in 1984 and 1985 (See Table 10).

Despite the improvements in exports and the balance of payments which are projected, the rate of growth of the economy is only expected to rise moderately, providing little growth to per capita income.

Table 10. Kenya: Assumptions 1984 through 1985

1. Balance of Payments

a. External factors

The present real effective exchange rate of the Kenya shilling is maintained.

LIBOR and prime rates unchanged from 1983 levels. A one percent change in the LIBOR rate is estimated to affect interest payments by about SDR 8 million per year.

Coffee exports increase in SDR terms by 6.3 percent in 1984 and by 7.1 percent in 1985. Tea exports increase in SDR terms by 16.8 percent in 1984 (on the basis of the known expansion in plantings) and by 4.5 percent in 1985. Nontraditional exports are estimated to rise by about 13 percent per year. Consequently, total export earnings are projected to average a growth of 9.5 percent per year. Import growth in SDR terms averages 8.6 percent per year.

b. Foreign financing

The receipt of transfers by the Government of SDR 97 million in 1984 is above historical trends, as a result of continuing exceptional finance stemming from the Donors Conferences of 1982 and 1983. In 1985, transfers are expected to return to traditional levels averaging about 0.8 percent of projected GDP. Borrowing from abroad by the Government, public entities and private sector is projected to average about 3.5 percent of GDP, including a third SAL with the IBRD.

c. Exchange and trade system

The exchange system is further liberalized with an improved coordination between the exchange rate, tariff structure, and export promotional policies.

2. Domestic output

The expansion of GDP at market prices rises to 4.0 percent in 1984 and 4.2 percent in 1985, while there is a further decline in inflationary pressures. Domestic food output rises in line with population, while coffee production recovers and tea output expands more rapidly. A larger contribution to growth is provided by the rise of production of nontraditional exports.

3. Public finance

The recovery of output allows for a more rapid increase in revenues in FY 1984/85, offsetting the expected fall in grants. A cautious expenditure policy is maintained and the overall deficit is reduced to about 3.0-3.3 percent of GDP.

4. Domestic credit

Monetary policy remains cautious, positive real interest rates are maintained and the financial system is better integrated. Credit to the private sector is allowed to rise by about 12-13 percent.

As the pace of the utilization of import licenses improves and further liberalization of the system is carried out, imports are expected to rise by close to 9 percent a year in 1984 and 1985. At the same time there should be a stagnation in the inflow of net transfers as the capital raised at the Donors' Conferences is fully disbursed. A further increase under net services is projected, largely from tourism, investment income, and other transportation.

The process of relaxation of import licensing is under way and expected to restore automaticity to import transactions. It is recognized that exchange rate and tariff policies as well as reserve management must be coordinated with such a liberalization to maintain external competitiveness and promote an orderly reallocation of resources in the economy. The commitment to maintain a flexible policy toward exchange-rate management, therefore, serves as an important element of the structural adjustment effort. The recent exchange rate adjustments and other measures have helped to reduce sharply import demand and thus have already helped to reduce the restrictiveness of the licensing scheme. Additional tariff adjustments may be necessary as the licensing system is liberalized. Consequently, several studies on tariff reform, including assessments of sectoral impact are underway in connection with the Structural Adjustment Loan of the World Bank. Furthermore, export promotion policies will be reviewed to eliminate practices that lead to inefficient resource use. Once the new tariff structure is in place, the review of export promotional policies finalized, and a new public sector investment program is in place, further improvements in growth can be expected in the period after 1985.

Kenya's public and publicly guaranteed long-term debt stood at SDR 2.5 billion at the end of 1982, the equivalent of 41 percent of estimated 1983 GDP. Roughly one third of the debt is on commercial terms. Short-term debt to banks in the BIS reporting area, which represents both public and private Kenyan entities, is estimated to have been only SDR 120 million. The debt service ratio for long-term public debt, including the Fund, rose from 12 percent of exports of goods and services in 1980 to 23.7 percent in 1982 (Table 11). It is now expected to reach 28.7 percent in 1983 and to decline gradually to 20.7 percent in 1987. Despite the reduction of disbursements of inflows to the Government in 1982 and 1983, corresponding to the reduced level of government expenditures, debt service ratios are now projected to be higher through 1987 than had been foreseen at the inception of the program.

In EBS/83/41 (2/23/83), total debt service (including IMF) in the five years 1983-86 was estimated at SDR 1,782 million. Revised figures based on the latest World Bank data sources now estimate the debt service at SDR 1,842 million. Consequently, most of the increase in the debt service ratio arose from the downward revision of the prospects for the export of goods and services during this period. The projections have taken into account the expected net inflows of official capital averaging

Table 11. Kenya: Debt Service Projection, Summary Table, 1982-88

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987	1988
Debt service							
Non-IMF principal 1/	169	216	237	273	254	217	225
Non-IMF interest 1/	137	129	124	120	111	104	113
Total non-IMF debt service	306	345	361	393	365	321	338
As percent of exports	20.9	23.8	22.8	22.5	18.8	14.9	14.2
IMF repurchases	17	43	58	64	67	94	105
IMF charges	24	27	34	45	41	39	29
Total IMF debt service	41	70	92	108	108	123	134
As percent of exports	2.8	4.8	5.8	6.2	5.6	5.7	5.6
Total debt service	347	415	453	501	473	444	472
As percent of exports	23.7	28.7	28.7	28.7	24.5	20.7	19.8
Memorandum items:							
Exports of goods	858	857	937	1,027	1,132	1,248	1,376
Exports of services	502	587	639	715	801	897	1,005
Total exports	1,460	1,444	1,576	1,742	1,934	2,145	2,381

Source: Data provided by the Kenyan authorities; and staff estimates.

1/ See Appendix Table IV. Exchange rates are assumed to be 14.23 K Sh/SDR on average in 1983 and 14.41 K Sh/SDR on average in 1984-88.

about 1.9 percent of GDP per year during this period. Over three fourths of this inflow is expected to be on concessionary terms.

Although the current program includes potential borrowings on commercial terms, it is likely that the authorities will not utilize this margin in the remainder of the program.

IV. Staff Appraisal and Proposed Decision

Kenya has made significant progress in implementing the current stand-by arrangement. The performance criteria specified for March and June 30, 1983 have been met with substantial margins. The adjustment in public finances accomplished in 1982/83 and in the balance of payments has gone far beyond the levels included in the program approved by the Executive Board on March 21, 1983. These achievements have been made possible by the great determination shown by the Government of Kenya to meet its adjustment commitments. The accomplishments to date have not been without their costs. Given the difficulties of meeting the performance criteria which the authorities encountered under previous stand-by arrangements, they chose to err on the conservative side. Moreover, their inability to fine tune fiscal and monetary policies, given the uncertainties involved in gauging the availability of resources, resulted in the recording of substantial margins under the credit ceilings and a larger compression of domestic demand than required under the program which, although favorably affecting the balance of payments, led to a further constraint on economic growth and development.

The program for FY 1983/84 attempts to consolidate some of the gains recorded in the previous fiscal year, and to provide the framework within the financial variables to allow for a resumption of a more satisfactory trend in economic activity. Recent developments continue to reflect some of the uncertainty and weakness in the private sector which arose from the coup attempt in August 1982. The presidential and parliamentary elections in September 1983 should have a calming effect.

The policies in place, including the flexible exchange rate policy, have allowed Kenya to maintain the competitive position achieved in late 1982. Export production now enjoys adequate incentives and the difficulties encountered by Kenya arise mainly from unfavorable developments in traditional markets, particularly in neighboring countries, and in the continued depressed state of world commodity markets, which has kept the prices of Kenya's main commodity exports at low levels. The exchange rate, higher tariffs, and tight financial policies have also been helpful in reducing the excessive import demand that existed at the start of the program and have allowed the authorities to rely on less restrictive import policies, as reflected in the large amount of unutilized import licenses.

The fiscal policies followed over the last two fiscal years have brought about a substantial reduction in the overall budgetary deficit. The authorities' willingness to maintain a tight expenditure policy has been an important element in bringing about this outturn. In their letter of January 28, 1983, the authorities committed themselves to reduce the overall deficit to the equivalent of 4.0-4.5 percent of GDP on 1983/84 operations. The estimates for the 1983/84 fiscal year aim at an overall deficit to GDP ratio of about 3.6 percent of GDP, including carryover expenses from the previous fiscal year. The program allows the authorities a margin of flexibility in permitting an increase in this ratio (up to a specified limit) in the event that at the time of the next review it is clear that additional concessionary foreign financing or nonbank resources are available above the levels presently estimated. Even if this scenario materializes, the overall budgetary deficit to GDP ratio will not rise beyond 4.1 percent of GDP, including the carryover. Excluding the carryover, the deficit will be in the range of 3.2-3.7 percent. This outcome will represent a sizable adjustment in the overall budgetary deficit over the life of the present stand-by arrangement which will be in excess of the authorities' initial commitments under the program. Most of the additional expenditures will be directed to the payment of interest on the public debt and there will be a need to continue a tight expenditure policy in 1983/84.

The increased foreign support available in 1983 as a result of the Donors' Conferences has been important in allowing Kenya to carry out the program successfully to date by reducing to some extent the contraction of government expenditure.

The authorities are reviewing the status of the public enterprise and are moving toward improving their viability and performance. This improvement is reflected in the amount of transfers provided by the public enterprises to the budget and their reduced reliance on bank financing.

In framing the monetary program for the 1983/84 fiscal year, care has been taken to balance the need for caution, with the need to provide credit for the productive sectors. The continuation of the present interest rate policies will be important in maintaining an adequate allocation of financial resources.

The liberalization of the import system that has taken place in the first half of 1983 and the new import system approved in June will allow for a more liberal import policy with a high degree of automaticity which will make investment and production decisions in the private sector easier to implement. The present situation, in which import demand is more closely linked to the supply availabilities, will make it easier for the authorities to continue their policy of lessening restrictions on imports. The linkage of further liberalization to the level of gross foreign reserves in the Central Bank will allow for continued movement in this area.

The balance of payments has already registered substantial adjustment over the last two years. The progress achieved in 1983 has been carried out simultaneously with a freeing of the import system. A continuation of these trends will go a long way toward meeting Kenya's medium-term policy objectives of achieving a sustainable balance of payments by 1985 within a freer trade and exchange system. The additional adjustment, which will be required following the current stand-by arrangement, is estimated at less than 0.5 percent of GDP.

Through the present stand-by arrangement and the Structural Adjustment Loans of the World Bank, the Government of Kenya has made progress in addressing many of the structural issues limiting the growth of the economy. However, increased attention needs to be given to supply-oriented policies in the near term, if a more satisfactory growth performance is to be achieved. The Government of Kenya is committed to continuing the integration of its external policies in such a way that there is a continued liberalization of the trade regime, in the context of a flexible exchange rate policy, which will maintain the competitive position achieved in the export sector. In this regard work is continuing on the establishment of a more rational tariff structure and on the removal of policies that lead to the inefficient utilization of resources. This coordinated adjustment has received substantial support under the current stand-by arrangement, and a satisfactory plan to further it will be considered a precondition to future utilization of Fund resources.

The present level of debt service requires continued vigilance on the part of the authorities not to allow this problem to reach a proportion that may be a hindrance to the orderly implementation of development policies. The restraint that the Government has so far shown in not negotiating additional commercial indebtedness speaks for the concern the Government has given this issue.

The staff believes the measures incorporated into the program are appropriate to Kenya's prevailing circumstances. The amount of maneuverabililty built into the program provides the Government with the opportunity to achieve its development goals and to provide the private sector with the necessary margin with which to take advantage of the current incentives and opportunities in the economy. The staff believes that the progress made in implementing the program represents a substantial effort on the part of the Kenyan Government, in which the support granted by donors has played an important and meaningful role. The staff expects to remain in close contact with the Kenyan authorities regarding the implementation of the program.

Accordingly the following draft decision is proposed for adoption by the Executive Board:

1. Kenya has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Kenya (EBS/83/41, Supplement 1, 3/23/83) and paragraph 16 of the letter of the Minister of Finance and the Governor of the Central Bank of Kenya dated January 28, 1983 annexed thereto in order to review policies and to establish performance criteria subject to which purchases may be made by Kenya.

2. The letter dated September 13, 1983 from the Minister of Fin and the Governor of the Central Bank of Kenya setting forth certain policies and measures which the authorities will pursue shall be anne to the stand-by arrangement for Kenya, and the letter of January 28, 1 shall be read as supplemented by the letter of September 13, 1983.

3. Accordingly, Kenya will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Kenya's currenc in the credit tranches beyond 25 percent of quota or increase the Fund holdings of that currency resulting from purchases of borrowed resourc beyond 12.5 percent of quota during any period in which the data at th end of the preceding period indicate that the limit on total domestic credit of the banking system or the limit on net credit from the banki system to the Government, both described in paragraph 7 of the letter September 13, 1983, is not observed.

4. With respect to the fiscal, monetary, import, and exchange and interest rate policies, the Fund finds that no additional understanding are necessary.

KENYA - Basic Data

ea, population, and GDP per capita

Area	580,000 square kilometers
Population: Total (1982)	17.2 million
Growth rate	3.8 per cent
GDP per capita (1982)	SDR 353

	1978	1979	1980	1981	1982 Prel.	1983 Proj.
P (at 1976 market prices)						
Total (in billions of Kenya shillings)	34.1	35.4	37.1	38.5	39.6	40.9
Agriculture (percent of total)	36	35	34	34	34	34
Manufacturing (percent of total)	11	11	12	12	12	12
Government (percent of total)	12	12	13	13	13	13
Annual real rate of growth (percent)	7.2	3.6	4.8	4.0	2.7	3.3
Investment as per cent of GDP (at current market prices)	30	23	29	28	22	20
ices (percent change)						
GDP deflator	3	7	11	11	15	15
Cost of living index	9	15	13	20	14	13

	1978/79	1979/80	1980/81	1981/82	1982/83 Estimate	1983/84 Proj.
ntral government finance 1/	(In billions of Kenya shillings)					
Recurrent revenue	10.0	12.0	14.3	15.7	16.7	18.4
Foreign grants	0.3	0.3	0.5	0.9	1.4	1.4
Total expenditure	14.0	15.8	19.7	21.4	20.6	23.1
Recurrent	*9.6*	*11.4*	*14.0*	*15.1*	*15.4*	*17.6*
Development	4.4	4.4	5.7	6.3	5.2	5.5
Adjustment	0.5	0.5	-0.5	--	--	--
Overall deficit (-)	-3.2	-3.0	-5.4	-4.8	-2.5	-3.3
Foreign loans (net)	1.5	2.0	2.8	1.1	1.3	1.0
Domestic borrowing (net)	1.7	1.0	2.6	3.2	1.0	2.3
Of which: from banking system	1.1	--	1.6	1.7	-0.1	1.2

1/ Fiscal year July 1-June 30.

KENYA - Basic Data (concluded)

	1978	1979	1980	1981	1982	1983 Proj.
Money and credit			(Percent change)			
Domestic credit	35	13	13	26	29	5
Government	78	7	10	79	62	-10
Private sector	37	10	20	11	11	11
Money and quasi-money	15	14	3	13	14	8

	1978	1979	1980	1981	1982 Est.	1983 Proj.
Balance of payments			(In millions of SDRs)			
Exports, f.o.b.	765	798	954	915	858	857
Imports, c.i.f.	-1,501	-1,418	-2,022	-1,850	-1,532	-1,411
Trade balance	-736	-620	-1,068	-935	-674	-554
Services and private transfers (net)	147	172	295	263	237	247
Current account balance	-589	-448	-773	-672	-437	-307
Capital account (net)	428	595	624	467	286	306
Official	296	298	392	241	236	176
Private	132	297	232	226	50	130
Of which: long-term	122	160	147	137	90	102
Allocation of SDRs	--	7	7	7	--	--
Overall surplus or deficit (-)	-161	154	-142	-198	-151	-1
Current account deficit as percent of GDP	-12.4	-8.2	-12.6	-11.7	-7.4	-5.1
Gross official foreign reserves (end of period)	283	496	392	216	208	266
In weeks of imports	10	18	10	7	8	10
External public debt						
Disbursed and outstanding (end of period)	1,121	1,461	1,897	2,155	2,447	2,553
Debt service as percent of exports of goods and non-factor services						
Excluding the Fund	7.7	9.0	10.9	19.4	21	24
Including the Fund	8.2	11.8	11.7	20.6	24	29

Kenya: Relations with the Fund 1/

Status:	Article XIV
Date of membership:	February 3, 1964
Quota:	SDR 103.5 million
Fund holdings of currency as per cent of quota:	SDR 453.3 million (437.96 per cent of quota)
Of which: compensatory facility	SDR 94.9 million (91.69 per cent of quota)
credit tranche ordinary resources	SDR 99.2 million (95.85 per cent of quota)
credit tranche supplementary financing	SDR 94.83 million (91.61 per cent of quota)
enlarged access	SDR 63.66 million (61.50 per cent of quota)
Holdings of SDRs:	SDR 19.05 million, or 51.50 per cent of net cumulative allocation (SDR 36.99 million)
Loan disbursements under the Trust Fund:	SDR 46.91 million
Direct distribution of profits from gold sales:	US$7.61 million
Exchange arrangement 2/:	Pegged to the SDR at K Sh 14.41 = SDR 1
Intervention currency and rate 2/:	U.S. dollar; K Sh 13.757 = US$1
Last consultation (Article IV):	In several stages during June-December 1982, discussed by the Board on March 21, 1983.

1/ As of August 31, 1983.
2/ As of September 5, 1983.

Financial Relations of the World Bank Group with Kenya 1/

Date of membership, IBRD: February 3, 1964

Capital subscription, IBRD: SDR 40.0 million

	World Bank loans			IDA credits and Third Window Loans		
	Committed	Disbursed	Disbursement ratio	Committed	Disbursed	Disbursement ratio
	(In millions of U.S. dollars)					
Agriculture, livestock, and rural development	209.0	72.1	34.5	247.3	81.9	33.1
Education	10.0	4.3	43.0	76.1	22.7	29.8
Energy	132.4	124.6	94.1	--	--	--
Industry	65.0	41.5	63.8	10.0	3.0	30.0
Oil and gas	24.0	22.2	92.5	--	--	--
Population	--	--	--	35.0	12.4	35.4
Structural adjustment	90.9	40.9	45.0	125.0	125.0	100.0
Technical assistance	--	--	--	10.5	0.9	8.6
Telecommunications	64.7	24.7	38.2	--	--	--
Tourism	17.0	11.2	65.9	--	--	--
Transportation	233.5	138.6	59.4	62.1	62.1	100.0
Urbanization	40.0	7.7	19.3	55.0	19.8	36.0
Utilities	93.3	70.0	75.0	--	--	--
Total	979.8	557.8	56.9	621.0	327.8	52.8
Repayments	71.0	71.0		3.8	3.8	
Debt outstanding (including undisbursed)	908.8	486.8	53.6	617.2	324.0	52.5

IFC operations

Promotion of tourism facilities, capital markets, industrial development (pulp and paper, textiles, cement) and development financing. Total commitments now held by IFC amount to US$43.8 million, of which US$ 35.2 million have been disbursed.

Source: World Bank.
1/ Through July 31, 1983.

Nairobi, Kenya
September 13, 1983

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière:

The Government of Kenya has diligently sought to keep to all the objectives of its current financial program, which is supported by a stand-by arrangement with the Fund. Since many of the program's assumptions have proved optimistic, the Government has been forced to adopt more difficult adjustment measures than originally envisaged. Developments in 1983 amply demonstrate the difficulties faced by the Government in fine tuning its policies in the face of changing circumstances to meet ceilings set many months earlier.

Economic growth has remained below expectations, and financial difficulties have persisted. However, given the degree of fiscal and monetary restraint and the exchange rate measures implemented since December 1982, the current account deficit (including grants) of the balance of payments for 1983 is now estimated to fall to 3.4 percent of GDP, significantly below the objective established in the program of 5.7 percent. Despite the fiscal measures undertaken in December 1982, when the present program was negotiated, revenue collections for fiscal year 1982/83 fell considerably below the expected level, due to the continued sluggishness of the economy, the impact of the reduction of import licensing prior to the program, and the losses from the August disturbances written off against income taxes. To offset the revenue losses the authorities took additional fiscal measures at the beginning of March 1983. A greater effort was made to improve revenues, including the collection of tax arrears, while expenditures were reduced by about 10 percent from the expenditure level agreed in December 1982. On the basis of these measures Kenya was able to meet the performance criteria stipulated for March and June 1983.

The Government of Kenya was very concerned that in the past, difficulties in estimating fiscal variables had led to the nonobservance of performance criteria in previous stand-by arrangements. The negotiations on the current arrangement, resulted in a 9-month period in which foreign financial support was lacking, forcing the Government to curtail import approvals in the last half of 1982. The negative impact of developments in this period was partly responsible for the difficulties faced in March 1983. To avoid an additional period in which such difficulties would be repeated, the Government took extraordinary measures to guarantee that the stipulated performance criteria for June 1983 were observed. In addition to improving revenue yields and cutting expenditures, the Government postponed expenditure authorizations until it was certain that the domestic and foreign resources were available to meet approved outlays. The fact that various income and sales tax payments, which were difficult to estimate given the difficult growth prospects, were not due until June 30, 1983 made the Government's planning difficult. Moreover, an important proportion of the expected foreign resources only materialized in the final days of the fiscal year. One donor generously increased its previously agreed commitments by a substantial amount, but the actual transfer of funds was not made until two days before the close of the fiscal year. Consequently, not only did expenditure authorized on the basis of these resources not have time to clear the Government's accounts, but some expenditures were only made in early July, increasing the cash float transferred into the 1983/84 fiscal year. Therefore, on June 30, 1983, the actual utilization of net bank credit by the Government turned out to be substantially below the agreed ceilings. Financing of the budget in 1982/83 was equivalent to 3.0 percent of GDP, with the Government making a net repayment to the banking system, compared to a targeted overall deficit in the program of 4.7 percent. However, the payments transferred into 1983/84 are estimated to equal 0.8 percent of GDP. Nevertheless, even after taking into account these expenditures, the performance criteria set for June 30, 1983 would have been observed by a substantial margin. As a consequence, in the process of ensuring that the medium-term adjustment objectives agreed in the program and to which the Government of Kenya remains fully committed were met, economic activity was more severely depressed than originally anticipated.

As a result of the uncertainties faced with respect to revenue collections and the receipt of foreign resources in fiscal year 1982/83, total government outlays (including the float) fell by 4 percent in nominal terms and 17 percent in real terms. This followed a reduction of real expenditures of about 10 percent in fiscal year 1981/82. Development expenditures of K Sh 5.2 billion in fiscal year 1982/83 were some one third lower in real terms than the level attained in 1980/81. Total government outlays as a proportion of GDP fell from about 35 percent in fiscal year 1980/81 to an estimated 26 percent in fiscal year 1982/83, while the overall deficit has fallen from 9.5 percent of GDP to 3.0 percent in the same period. Such a major adjustment has had a contracting impact on economic activity, which has not been offset by an upturn by the private sector.

The Government of Kenya feels that despite the difficulties encountered so far, the medium-term program explained in our letter to you dated January 28, 1983 remains valid. In paragraph 11 of the aforementioned letter the Government expressed its intention of attaining an overall budgetary deficit for fiscal year 1983/84 in the range of 4.0-4.5 percent of GDP. Including the expenditure postponed in fiscal year 1982/83, which will fall in the current fiscal year, the Government feels that on the basis of known financing an overall deficit equivalent to 3.6 percent of GDP (K Sh 3,302 million) is attainable in fiscal year

1983/84. However, the Government will increase its efforts to draw down concessionary assistance and nonbank financing. Subject to confirmation by the staff during the next review of the program, to the extent that the inflow of these resources proves greater, overall expenditure will be allowed to rise by the same amount but not by more than K Sh 400 million. However, the overall deficit will not be allowed to exceed the equivalent of 4.1 percent of GDP (K Sh 3,702 million). Although expenditures are targeted to grow by 12 percent, over one-half of the rise is accounted for by interest payments on the public debt. On the basis of higher concessionary aid and nonbank financing, the expenditure growth could rise to 14 percent, of which about half is due interest on the public debt.

In order to reach the objectives established for the fiscal year as a whole, the Government will limit the overall deficit to K Sh 3,650 million for the period July 1 to December 30, 1983. The Government of Kenya will reach understandings with the Fund prior to February 28, 1984 on the actual targets for the overall deficit to be applied for March 31 and June 30, 1984.

As a result of the budgetary target described above, the banking system will continue to be able to provide adequate financing of private sector activity. For fiscal year 1983/84 net domestic credit is targeted to grow by 15.0 percent of the initial money stock compared to a growth rate of 7.4 percent in 1982/83 similarly measured. The larger expansion in the current fiscal year largely reflects the carry-over of the budgetary float and an allowance for increasing credit to the rest of the economy by 12.9 percent as opposed to 6.2 percent in the previous fiscal year and a program target of 15.6 percent. This target will allow the rest of the economy to obtain about 62 percent of the overall credit expansion planned for the fiscal year. Accordingly, net domestic credit of the banking system which was K Sh 22,990 million on June 30, 1983 will not be allowed to exceed K Sh 25,495 million on September 30, 1983 or K Sh 26,420 million on December 31, 1983. In line with the previously stated fiscal policy, net bank credit to the Government, net of the deposits of the Cereals and Sugar Finance Corporation (CSFC) with the Treasury and including any Eurocurrency borrowing undertaken after June 30, 1983, which was K Sh 5,732 million on June 30, 1983, will not be allowed to exceed K Sh 7,524 million on September 30, 1983 or of K Sh 7,724 million on December 31, 1983. For the fiscal year as a whole the Government has set an indicative target on the net domestic credit of the banking system of K Sh 26,111 million and net bank credit to the Government (as defined above) to K Sh 6,927 million. The Government of Kenya intends to reach understandings with the Fund, as specified in our letter of January 28, 1983, on the credit ceilings applicable for March 31, 1984 and June 30, 1984 prior to February 28, 1984.

Interest rates were raised by about 7.5-8 percentage points between June 1980 and December 1982. Consequently, time deposit rates now range between 12.5 percent and 15.5 percent compared to an inflationary rate of 13 percent in the previous year. Although inflationary pressures have begun to ease and deposit rates are becoming even more positive in real terms, the Government does not plan to alter deposit rates at this time but will keep them in continuous review to ensure that time deposit rates remain positive in real terms.

Since the present program was launched, the Government has sought to normalize import approvals to ensure that an increasing proportion of import demand is met. In the first half of 1983 import licenses approved by the Central Bank have increased by 45.0 percent in local currency terms (23 percent in SDR terms), improving the supply situation. The Government is concerned that a sizeable proportion of approved licenses has not been utilized, indicating that the exchange rate and other measures undertaken since December have curtailed import demand more than expected. In June 1983, the Government announced the introduction of a revised import system aimed at further facilitating the import approval procedures by reducing administrative discretion. Under the new system a core of import items, largely of high priority, will be licensed automatically. A second group will also be freely importable, although import licenses will be limited to registered and approved importers only. Included in this second group are such items as petroleum products and fertilizers. It is estimated that these two groups are equivalent to about two thirds of expected import demand. Two additional import categories containing about 30 percent of expected demand will be subject to allocations which aim at meeting a high proportion of expected demand. A final group, which includes largely low priority consumer goods, (about 6 percent of expected demand) will be subject to quotas. Items will be moved to the free categories, automatically according to improvements in the level of gross reserves of the Central Bank. The Government expects that this procedure will allow for a relaxation of the system during the current fiscal year.

Since the present program was launched, the Government has kept the exchange rate of the Kenya shilling under continuous review. Consequently, in June-July 1983 the exchange rate of the Kenya shilling was depreciated by a further 2.5 percent in order to maintain the real effective exchange rate prevailing at the end of 1982. The Government intends to continue to maintain the exchange rate under review and to take further action as needed.

The policies announced for fiscal year 1983/84 allow for a further reduction of the current account deficit (including grants) of the balance of payments to 3.5 percent in 1984. However, the Government is desirous of relaxing the import system and to the extent that this objective can be accomplished through larger inflows of long term capital than previously estimated, the current account deficit will be allowed to rise.

The Government of Kenya believes that the policies set forth in this letter are adequate to meet the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Kenya will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund.

Yours sincerely,

/s/	/s/
P. Ndegwa Governor of the Central Bank of Kenya	Arthur K. Magugu Minister of Finance

Table I. Kenya: Consumer Price Indices, 1978-83

	Lower-income			Middle-income			Upper-income			Composite Index 1/		
	Total	Food	Nonfood	Total	Food	Nonfood	Total	Food	Nonfood	Total	Food	Nonfood
(Base: January-June 1975=100; end of period)												
Weights		41.0	59.0		35.6	64.4		25.0	75.0		39.5	60.5
December												
1978	162.3	147.8	172.4	141.0	141.1	140.9	145.1	149.9	143.5	157.7	146.6	164.9
1979	177.1	159.5	189.3	155.7	154.8	156.2	163.7	162.0	164.3	172.6	158.7	181.7
1980	200.3	185.3	210.7	173.3	178.0	170.7	185.4	185.1	185.5	194.7	183.9	201.8
1981	239.0	219.7	252.4	216.3	211.0	219.2	220.5	214.1	222.6	234.1	217.9	244.7
1982	270.8	241.6	291.8	255.9	228.6	271.4	259.0	231.6	268.5	267.8	238.8	287.5
June												
1982	256.3	230.0	274.6	240.1	222.5	249.8	239.2	226.2	243.5	252.7	228.5	268.5
1983	284.6	251.6	307.5	270.3	244.1	284.8	279.3	256.9	286.8	281.7	250.3	302.2
(Annual percentage growth)												
December												
1978	13.7	13.1	14.0	8.1	11.0	6.6	8.3	7.2	8.6	12.5	12.5	12.4
1979	9.1	7.9	9.8	10.4	9.7	10.9	12.8	8.1	14.5	9.4	8.3	10.2
1980	13.1	16.2	11.3	11.3	15.0	9.3	13.3	14.3	12.9	12.8	15.9	11.1
1981	19.3	18.6	19.8	24.8	13.5	28.4	18.9	15.7	20.0	20.3	18.5	21.3
1982	13.3	10.0	15.6	18.3	8.3	23.8	17.5	8.2	20.6	14.4	9.6	17.5
June												
1983	11.0	9.4	12.0	12.6	9.7	14.0	16.8	13.6	17.8	11.5	9.5	12.6

Source: Data provided by the Kenyan authorities.

1/ The composite index has the following weights lower income 78 percent, middle-income 19 percent, and upper-income 3 percent.

Table II. Kenya: Recurrent Revenue and Grants and Total Expenditures and Net Lending

(In millions of Kenya shillings)

	1980/81	1981/82	1982/83 Prel.	1983/84 Proj.
Recurrent revenue and grants	14,789	16,623	18,085	19,842
Recurrent revenue	14,388	15,737	16,729	18,419
Tax revenue	12,432	13,537	14,029	16,335
Customs	3,191	3,639	3,663	4,010
Excise taxes	1,205	1,278	1,332	1,630
Sales taxes	3,588	4,191	3,897	6,090
Income taxes	3,952	4,027	4,460	3,880
Other taxes	496	402	677	725
Nontax	1,956	2,200	2,700	2,084
Grants	451	886	1,356	1,423
Cash	291	680	966	936
Appropriations in aid	160	206	390	487
Total expenditure and net lending	19,717	21,381	20,630	23,044
Recurrent	13,984	15,031	15,423	17,575
Recurrent (excluding interest)	12,623	12,579	13,008	13,593
Interest	1,361	2,452	2,415	3,982
Development and net lending	5,733	6,350	5,207	5,469

Source: Data provided by the Kenyan authorities.

Table III. Kenya: Liquidity of Commercial Banks

(In millions of Kenya shillings)

	1982				1983	
	March	June	Sept.	Dec.	March	June
Notes and coins	441.0	403.4	512.9	437.2	366.2	477.3
Balance at Central Bank of Kenya	1,225.2	632.0	1,117.8	1,395.3	491.0	494.1
Balance at banks (Kenya)	--	195.9	263.0	--	--	--
Balance at banks (abroad)	229.9	227.6	67.1	155.5	171.0	269.5
Treasury bills	1,409.2	1,038.7	1,037.7	2,283.8	2,488.4	2,230.0
Total liquidity assets	3,305.2	2,497.6	3,098.6	4,271.8	3,517.6	3,440.9
Net deposits liability	14,287.2	14,463.7	15,428.5	16,520.4	16,123.4	15,883.9
Statutory minimum liquidity requirement	2,142.9	2,169.5	2,314.1	2,477.6	3,224.5	3,176.6
(+)Excess (-)deficiency	1,162.5	328.1	784.5	1,794.2	292.4	264.3
			(In percent)			
Statutory minimum liquidity ratio	15	15	15	15	20 1/	20
Actual liquidity ratio	23	17	20	26	22	22
Cash reserve ratio	8.6	4.4	7.3	8.4	3.0	3.2

Source: Data provided by the Central Bank of Kenya.

1/ In February 1983, liquidity ratio was raised to 20 percent from the previous rate of 15 percent.

Table IV. Kenya: External Debt Projection, 1982-88

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987	1988
Non-IMF debt							
(Beginning of period)	1,980.3	2,138.3	2,213.5	2,333.6	2,474.4	2,643.5	2,864.5
Disbursements	327.4	291.1	356.6	414.0	422.9	438.7	460.5
Amortization	169.4	215.9	236.5	273.2	253.8	217.7	225.0
Non-IMF debt							
(End of period)	2,138.3	2,213.5	2,333.6	2,474.4	2,643.5	2,864.5	3,100.0
Use of Fund credit							
(Beginning of period)	175.3	308.8	395.6	440.6	461.8	446.4	352.4
Purchases	150.4	129.8	103.0	85.2	51.6	--	--
Repurchases	16.9	43.0	58.0	64.0	67.0	94.0	105.0
Use of Fund credit							
(End of period)	308.8	395.6	440.6	461.8	446.4	352.4	247.4
Total debt							
(End of period)	2,447.1	2,609.1	2,774.2	2,928.8	3,059.8	3,196.9	3,347.4
Non-IMF debt (beginning of period)/GDP	38.8	35.9	32.9	30.7			
Total debt (beginning of period)/GDP	42.3	43.8	41.2	38.5			

Sources: World Bank; and staff estimates.