

January 7, 1982 - 82/1

Statement by Mr. Kiingi on Kenya  
Executive Board Meeting 82/2  
January 8, 1982

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Since the two-year stand-by arrangement was agreed with the Fund in October 1980, the economy of Kenya has experienced some setbacks. Drought necessitated a large outlay on food imports at a time when the volume of the traditional exports of coffee, pyrethrum, and tea was at a low level. The performance of the industrial sector was also below expectations. However, at 4.2 per cent, growth in GDP was slightly higher than in 1980 and inflation remained relatively high at 10 per cent but is expected to decline to 8 per cent in 1982.

Budgetary expenditure was much higher than initially projected. Salary and wage increases for government employees of the order of 20-23 per cent and increased expenditure on defense, internal security, and education, among other items, contributed to the increase. There were overruns on the development programme. The increase in revenue was marginal and the overall budget deficit far exceeded the targets set under the arrangement.

The unexpected developments in the budget resulted in the breach of the ceilings set on net bank credit to the Government and although marginally, on actual total domestic bank credit in June 1981.

The current account balance of payments was under pressure, mainly as a result of increased government expenditure which led to a wider budgetary deficit. Heavy expenditure on food and oil imports, sluggish export performance, and further deterioration in the terms of trade of up to 8 per cent, reflected among others in a decline in coffee prices contributed to the pressures. However, heavy capital inflows resulted in a comparatively much lower overall deficit than that recorded on the current account.

The authorities agree with the staff that performance under the program has been less than satisfactory. They believe that corrective action is called for and that this will be assisted by a new one-year stand-by arrangement. Some measures have already been taken, including a 15 per cent depreciation of the Kenya shilling on September 21, following the February depreciation of 5 per cent. Import tariff adjustments have been made and steps are being taken to contain public expenditure and reduce the budgetary deficit from 10.6 per cent of GDP in 1980/81 to 7.5 per cent in 1981/82. Recurrent expenditure is being restrained by curbing recruitment into the civil service, confining wage increases to "in-grade promotions" and effecting economies on defense, education, foreign travel, and replacement of vehicles. Development expenditure has been pruned and expenditure monitoring and control techniques have been improved. The Fund is assisting in this connection. Growth in domestic credit is to slow down and expansion is to favor the

private sector. It is to be noted that interest rates are now positive following increases in the rates quoted by commercial banks and raising lending rates to the maximum level of 14 per cent in June 1981. Growth in net credit to Government is expected to decline noticeably from 75 per cent in 1981 to 8 per cent this year. The program implies growth in credit to the private sector of 15 per cent compared to 10 per cent a year earlier.

The tariff adjustments so far made include the issue of new import schedules and the replacement of quantitative restrictions with tariffs. Improvement in the balance of payments in 1982 is expected. Export performance is expected to be favorable both in volume and price, especially in respect of coffee and tea against the marginal increases in imports.

The supplementary information provided by the staff shows that the authorities have recently taken further measures. Increases in producer prices on, among others, wheat, rice, sugar, cotton, cashew nuts, and animal products have been announced. Average retail prices of petroleum products have also been increased by 19 per cent. Increases have also been effected on a number of consumer goods which are mentioned in the supplement. Furthermore, revenue collection has picked up and net bank credit to the Government was tentatively estimated to be on target as at the end of December.

I agree with the appraisal of the staff on pages 17 and 18 of EBS/81/241. The authorities are pursuing the right import policy strategy and taking the right measures in reducing budgetary expenditure and deficit; are following the right credit, monetary, and interest policies; and will limit new medium external debt commitments to not more than \$160 million. I commend to the approval of the Board the request for a new one-year stand-by arrangement for an amount equivalent to SDR 151.5 million as set out in the proposed decision on pages 18 and 19 of the paper.