FOR AGENDA

SM/08/276

August 20, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Kenya—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with Kenya, which is tentatively scheduled for discussion on **Wednesday, September 10, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Kenya indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Yang (ext. 34339) and Ms. Masha (ext. 35939) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, August 28, 2008; and to the African Development Bank, the Common Market for Eastern and Southern Africa, and the European Commission, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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KENYA

Staff Report for the 2008 Article IV Consultation

Prepared by the African Department
(In consultation with other departments)

Approved by Saul Lizondo and Anthony R. Boote

August 20, 2008

Mission Date and Team	June 23–July 2, 2008. Messrs. Krueger (head), Atingi Ego, and Yang, Ms. Masha (all AFR), Ms. Everaert (FAD), and Mr. John (PDR). Mr. Rogers (Senior Resident Representative) assisted the mission. The mission met with Prime Minister Raila Odinga, Finance Minister Amos Kimunya, Central Bank Governor Njuguna Ndung'u, other senior government officials as well as representatives of the business community, labor unions, civil society, and Kenya's development partners. The mission overlapped with a June 23–25 visit by Mr. Horton (FAD) to discuss the *Ex Post* Assessment of Kenya's Longer-Term Program Engagement with the Fund.
Background Papers	*Public Debt Thresholds for Kenya* and *Assessing Kenya's External Stability and Competitiveness*, which were discussed at a seminar with government officials.
Exchange Rate Regime	Kenya has accepted the obligations of Article VIII, Section 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions.
Economic Statistics	Broadly adequate for surveillance purposes, but weaknesses in some areas hinder policy assessments, especially with respect to data on consumer prices, national accounts, and balance of payments (Information Annex).
Last Article IV Consultation	In concluding the 2006 consultation, Executive Directors commended the authorities for sound macroeconomic management and progress with structural reforms. They encouraged maintaining fiscal prudence, centering monetary policy around reserve money targets, and advancing structural and governance reforms. Policies (supported through November 2007 by a PRGF arrangement) were broadly in line with this advice, although there were at times slippages in meeting reserve money targets and advancing structural reforms.

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EXECUTIVE SUMMARY

The Article IV discussions focused on the policy agenda of the new grand coalition government. In light of the disruptions that followed the December 2007 elections, the discussions centered around policies to strengthen growth and address some of the social issues that emerged from the crisis, while preserving macroeconomic stability. There was broad agreement on key, but not all, policy issues and on economic prospects:

- **Economic prospects**: after a contraction in the first quarter of 2008, an economic rebound is underway. Notwithstanding considerable risks, staff expected that GDP growth would exceed 7 percent in 2008/09 (July/June); the authorities were somewhat more optimistic than staff that this rapid growth would continue over the medium term.

- **External stability**: the real exchange rate has appreciated considerably and the external current account widened. However, there was broad agreement that this seemed to reflect foremost fundamental factors, and exports, capital inflows, and foreign reserves remain robust.

- **Fiscal policy**: fiscal policy in 2008/09 needs to provide adequate resources for infrastructure and social objectives while preserving macroeconomic stability. With this in mind, staff saw merit in reducing the fiscal deficit to around 4½ percent of GDP—not least in light of expected high growth and inflationary pressures. The authorities' budget envisaged a higher deficit of about 5⅓ percent of GDP, and they emphasized infrastructure needs. The authorities were considering staff's proposal to move to a fiscal anchor of total public debt (including domestic and external), in light of increased external borrowing opportunities. Concerning a planned sovereign bond issue, the authorities agreed that its size, costs, and maturity profile needed to be carefully evaluated in order to mitigate potential risks.

- **Monetary policy**: recent measures to tighten monetary policy were in the right direction in the face of high money growth and inflationary pressures—and more steps are urgently needed to prevent second-round effects of higher food and fuel prices.

- **Structural reforms and Vision 2030**: the government's Vision 2030 aims for Kenya to reach middle-income status by 2030. There was agreement that for the private sector to play its envisaged lead role, substantial infrastructure investment as well as structural reforms would be required, including in the financial sector and on public financial management, governance, and trade policy.

The authorities agreed with the main findings of the ***Ex-Post* Assessment** and suggested several steps for a more effective and balanced partnership in the future.

I. Political Context

1. **A political crisis followed the December 2007 elections, resulting in major economic disruptions**. During the crisis, over 1,000 people were killed and more than 350,000 (about 1 percent of the population) displaced. The disruptions affected also neighboring countries dependent on transport links through Kenya.

2. **Following an internationally intermediated power-sharing agreement, a grand coalition government assumed office in April 2008**. Under the agreement, President Kibaki remained in office and Mr. Raila Odinga assumed the newly-created position of Prime Minister. Constitutional and land reforms are among the challenging political tasks of the new government. On the economic front, the government submitted the 2008/09 budget and launched Vision 2030, a long-term vision for Kenya. However, there have also been challenges, and the Minister of Finance stepped aside in July to allow investigation of alleged misconduct related to a property sale, with allegations also leveled against the Governor of the Central Bank of Kenya (CBK).

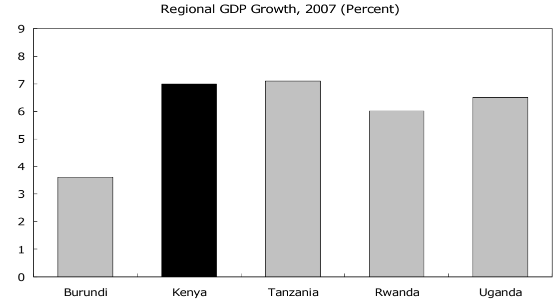
II. Economic Context

3. **After a long period of stagnation, growth rebounded strongly over the 5-year period preceding the recent crisis**. Important, if uneven, progress in addressing long-standing weaknesses—including in the areas of financial management, governance, and the business climate—underpinned the gains in recent years, combined with strong global growth. Kenya's GDP growth of 7 percent in 2007 was its highest in over two decades and caught up with growth in the rest of the East African Community (EAC).

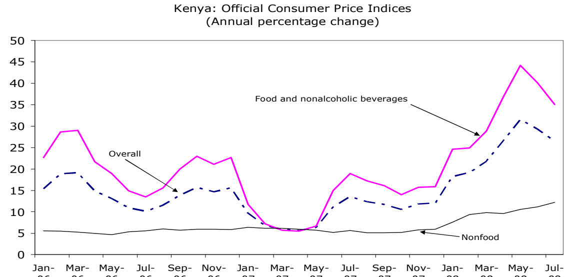
Kenya: Comparative Macroeconomic Indicators
(Annual percentage change)

	1990-2002		2003-2007	
	Real GDP Growth	Inflation	Real GDP Growth	Inflation
Kenya	2.1	14.2	5.1	10.6
Uganda	6.2	13.9	5.7	6.6
Tanzania	3.8	17.8	6.5	4.3
SSA - LIC [1]	3.7	14.3	6.1	8.8
All Low Income	4.0	41.1	7.6	8.9

Sources: Country authorities; and IMF staff estimates.
[1] Sub-Saharan Africa Low-Income Countries.



Sources: Country authorities; and IMF staff estimates.



Source: Kenya National Bureau of Statistics.

4. **Political instability took a toll on economic activity and exacerbated inflationary pressures in early 2008.** First quarter GDP contracted by 1.3 percent (year-on-year), with tourist arrivals down by over 50 percent and most sectors hampered by disruptions to supply chains and displacement of productive resources. The resulting shortages compounded inflation pressures arising from an earlier accommodative monetary policy as well as from rising international fuel and food prices. Inflation for the official headline consumer price index (CPI) was 26.5 percent in July (year-on-year); and even if the index appears to overstate inflation due to some methodological issues (see Box 1),

correcting for the overstatement still left estimated inflation at around 15 percent in the early summer—well above the authorities' target of 5 percent.

Box 1. Upward Bias in the CPI Inflation Rate

Kenya's official CPI imparts an upward bias to "true" inflation. This mainly reflects the chain-linked Carli index used to aggregate individual prices. The Carli index is not "transitive" (if a price increase in one period is reversed in the next, the index would still show an overall increase) and, especially in its chain-linked form, it creates a substantial upward bias, particularly when prices are volatile. For this reason, the International Labor Organization's CPI Manual (2004) strongly advises against using it for compiling the CPI.

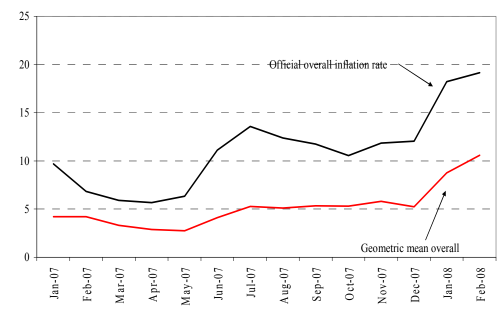
To provide a rough sense of the magnitude of the bias, staff applied one of the recommended methodologies (the so-called Jevons index). The results suggest that the overall CPI was overestimated over the past 1½ years by a factor of about 2. In line with the recommendations of a recent STA mission, the Kenya National Bureau of Statistics plans to switch to a formula consistent with international best practices later in 2008, together with a rebasing and reweighing of the CPI basket.

Illustration of Upward Bias in the Carli Index

	May	June	June/May
Price	(Shillings)		(Ratio)
Item A	20	25	1.25
Item B	25	20	0.8
Mean of prices	(Shillings)		(Ratio)
Arithmetic	22.5	22.5	1.0
Geometric	22.4	22.4	1.0
Derived indices	(May = 100)		(% change)
Carli	100	102.5	2.5
Dutot	100	100	0.0
Jevons	100	100	0.0

Source: IMF staff calculations.

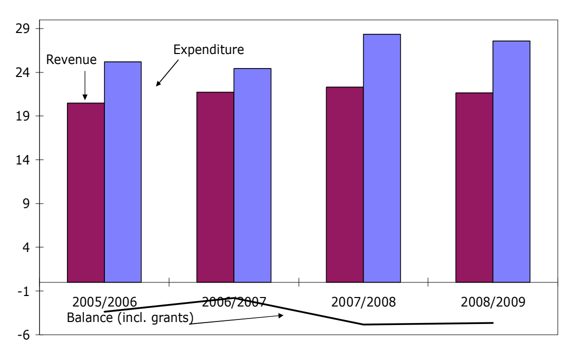
Comparison of CPIs: Official Series and Geometric Mean Estimates
(Annual percentage change)



Sources: KNBS for official series, and IMFstaff for geometric mean estimates.

5. **The fiscal deficit (including grants) reached 4.8 percent of GDP for 2007/08 (July/June)—below the original budget target but more than twice the deficit of the previous year**. The lower-than-budgeted deficit reflected mainly a shortfall in foreign-financed development spending, which had been anticipated under the now expired PRGF program (Table 2). Strong revenue performance benefited from continued tax administration improvements, a buoyant economy through end-2007, which boosted particularly income tax collections, and a 0.3 percent of GDP one-off transfer of collected road fees. Privatization receipts increased sharply to almost 4 percent of GDP. As a result, domestic financing declined and public debt fell below 40 percent of GDP.

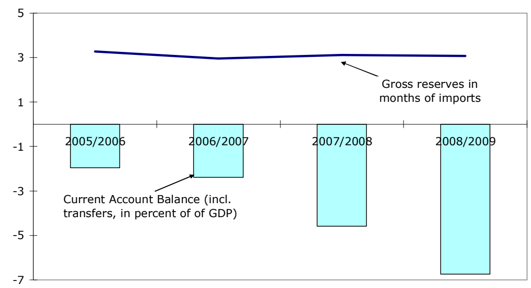
Kenya: Fiscal Developments (In percent of GDP)



Sources: Kenyan authorities; and IMF staff estimates.

6. **The external current account deficit almost doubled in 2007/08 to 4½ percent of GDP**. The widening deficit largely reflected the impact of higher oil prices, while exports held up well despite a strong shilling (see below). Strong capital inflows resumed after the crisis—partly driven by a heavily oversubscribed initial public offering (IPO) of Safaricom—and gross reserves increased.

Kenya: External Sector Developments



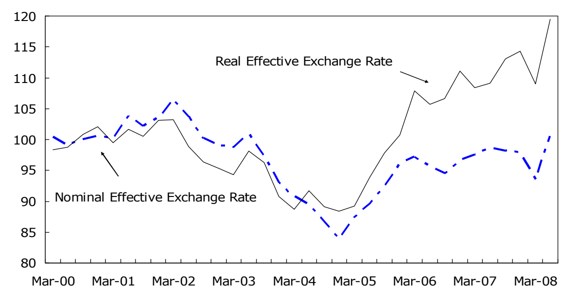
Sources: Kenyan authorities; and IMF staff estimates.

III. Policy Discussions

A. External Stability

7. **Indicators of external performance provide mixed signals.** The shilling appreciated by almost 32 percent in real effective terms since end 2004 (based on a corrected CPI series), a period over which the terms of trade deteriorated markedly and the current account deficit increased. However, export values have expanded somewhat faster than global exports, financial and FDI inflows have increased, external debt has declined and is fairly low, and reserves are at historically high levels.

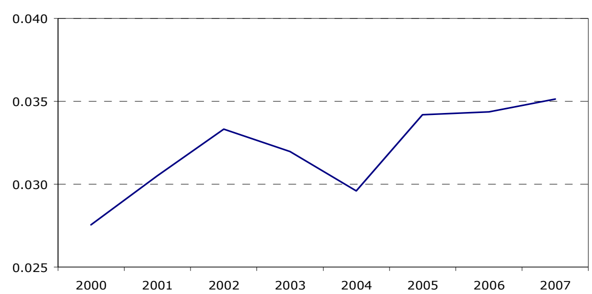
Kenya: Real and Nominal Effective Exchange Rates
(2000 = 100)



Sources: Kenyan authorities; and IMF staff estimates.

8. **Overall, the authorities agreed with staff that the exchange rate level appeared broadly appropriate (Box 2).** The shilling's real appreciation since 2005 was likely driven by improving fundamentals, including rising tea and coffee prices, a strengthening net foreign asset position, and improved productivity—all of which helped attract large private financial inflows. Even so, there was agreement that the widening current account deficit entailed risks, and that developments in competitiveness and financial flows needed to be monitored carefully.

Kenya: Exports as Percent of World Exports, 2000-07
(percent)



Sources: IMF, *Direction of Trade Statistics*.

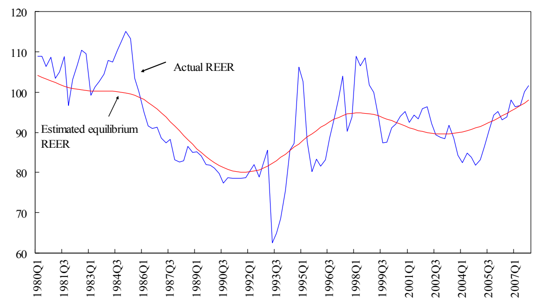
9. **The authorities considered that the managed float exchange rate system had served Kenya well.** Interventions in the foreign exchange market have been largely limited to meeting foreign reserve and monetary targets and reducing exchange rate volatility, with the *de facto* and *de jure* exchange rate regimes classified as a managed float. The authorities noted that further structural reforms would be important to keep the current account deficit at a sustainable level. The projected

further weakening of the terms of trade highlights the urgency to step up such reforms and address infrastructure bottlenecks, which impede trade.

Box 2. External Stability Assessment

The staff employed several methodologies to assess external stability (see the background study "Assessing Kenya's External Stability and Competitiveness"). Estimates of the equilibrium real effective exchange rate (REER) show the shilling's recent appreciation to be in line with fundamentals, particularly with higher prices for tea and coffee, a stronger net foreign asset position, and improved relative productivity. Recent work by the Central Bank of Kenya also found the REER level to be consistent with fundamentals. A second methodology, a variant of the macroeconomic balance approach, suggests that Kenya's current account deficit remains smaller than its estimated "norm" (although the gap has narrowed in recent years and these estimates are subject to considerable margins of uncertainty). Finally, results based on the level of the current account deficit that would stabilize external debt suggest that the present deficit was higher than the level stabilizing Kenya's relatively low external debt.

Kenya: Actual and Estimated REER, 1980-2007



Sources: Kenyan authorities; and IMF staff estimates.

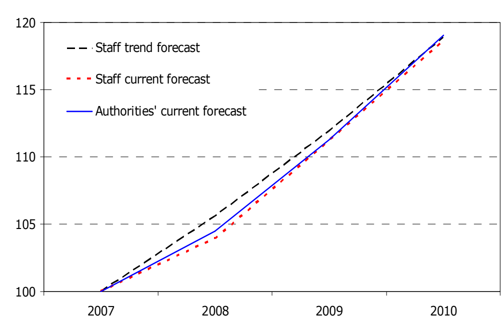
Taken together, the different methodologies do not indicate major risks to external stability. However, data and methodological weaknesses suggest caution in interpreting the results.

B. Growth Prospects

10. **The authorities and business leaders were confident that a robust economic recovery was already underway**. Although the political crisis took a heavy human toll, its damage to productive capacity appears limited, mainly the dislocation of residents and localized destruction of infrastructure. While tourism and agriculture will take some time to regain their strength, various indicators—including for revenues, traffic volumes, and capital inflows—suggest that a recovery has begun. Earlier repercussions on neighboring countries (notably Burundi, Rwanda, and Uganda) have also dissipated.

11. **Against this background, staff expects GDP growth to rebound strongly, from 3.9 percent in 2007/08 to 7.2 percent in 2008/09**. Much of the acceleration reflects the gradual return to trend growth, following the disruptions in the first part of 2008 (which affected fiscal year 2007/08). At the time of the mission, the authorities forecast slower GDP growth for 2008/09 (5.8–6.6 percent), but this did not yet incorporate the larger-than-anticipated output decline in the first quarter of 2008 nor the correspondingly stronger bounce-back from the weaker base assumed in the staff's projections for 2008/09.

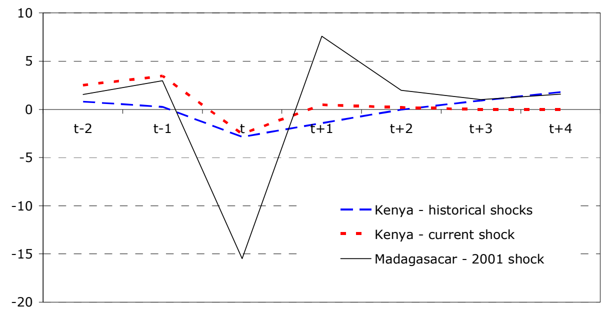
Kenya: Real GDP (2007 = 100)



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

12. **Over the medium term, the authorities and staff expect a fairly steady return to trend growth levels**. The Budget Strategy Paper (BSP) projects GDP growth to average about 7 percent over the medium term, with staff expecting somewhat lower growth (6½ percent) on current policies. The V-shaped recovery would be broadly in line with previous election-related disruptions in Kenya and elsewhere (such as in Madagascar in 2001-02), where growth tended to rebound quickly, but it took time—often some 4–5 years—for GDP levels to approach the pre-crisis trajectory.

Kenya and Madagascar: Growth Deviations From Trend Rates (percentage points)



Sources: Kenyan authorities; and IMF staff estimates.

13. **The projections are subject to considerable risks**. Projected annual growth rates, while close to those before the crisis, are well above the average rate recorded over the past decade—and it was agreed that continued structural and governance reforms were needed to secure these rates. The authorities shared staff's concerns over downside risks, including those arising from the stability of the power sharing arrangement, challenges for the coalition government to implement much-needed reforms, further increases in global oil and food prices as well as world interest rates, and a more pronounced weakening of the global economy. However, they also emphasized the upside risks—for example, a faster-than-projected rebound in confidence, tourism, and donor support. The staff also noted longer-term constraints on growth, particularly infrastructure bottlenecks as well as relatively low levels of private saving and investment.

C. Fiscal Policy

Fiscal anchor—moving to a public debt target?

14. **The authorities recognized that evolving economic circumstances warranted a fresh look at the appropriate fiscal anchor**. In the past, a focus on net domestic debt (relative to GDP) had served Kenya well: it helped bring down domestic debt and provided room for private sector credit growth. However, plans for commercial external borrowing could potentially lead to large year-to-year fluctuations in spending for a given amount of domestic financing. The authorities' agreed that this would be an undesirable outcome.

15. **The authorities are considering staff's proposal of anchoring fiscal policy around a target for total public debt (both domestic and external)**. The target would ideally also include contingent liabilities and other debts for which the government could ultimately be liable. Cross-country evidence suggests that a public debt-to-GDP ratio of about 35 percent would be an appropriate target for Kenya.[1] With the debt ratio currently close to 40 percent, staff supported

[1] See background paper "Public Debt Thresholds for Kenya" and debt sustainability analysis in Supplement I.

aiming for a moderate decline over the medium term, particularly given the potential realization of contingent liabilities in the parastatal sector. Year-to-year fluctuations around such a target path could be accommodated if warranted by specific circumstances—for example, large privatization receipts, which should typically be spent gradually over time and result in faster debt reduction, whereas drought-related emergencies or weak output growth could entail a smaller adjustment in a given year. The authorities saw merit in this approach, including its potential flexibility, but stressed also that sufficient room was needed to address urgent spending priorities.

Fiscal policy for 2008/09—supporting growth while preserving macroeconomic stability

16. **The 2008/09 budget envisages a deficit of 5.3 percent of GDP and a rebalancing of spending toward public investment**. While revenues (in relation to GDP) are expected to fall back from their exceptionally high level in 2007/08, spending is considerably higher than the authorities had envisaged in their 2007 Budget Strategy Paper—resulting also in higher deficits. They saw this as warranted on two accounts: first, higher spending needs, notably to address infrastructure bottlenecks and new policy initiatives (for example, free secondary education) emerging out of the political tensions in early 2008; and, second, better financing opportunities than envisaged earlier, including access to commercial foreign financing (see below).

17. **Staff supported the emphasis on public investment, but saw merit in having a lower-than-budgeted deficit (of about 4½ percent of GDP)**. This would be consistent with the medium-term debt objective outlined above and allow for fiscal policy to play its part in preserving macroeconomic stability, in a context of strong economic growth and high inflation. Staff noted that this deficit was indeed achievable in the context of the authorities' budget plans, provided foreign-financed investment spending was executed in line with rates of the recent past (rather than the 100 percent execution rate assumed in the budget). This would still allow for real spending growth of some 2 percent (versus 5 percent in the budget). The authorities recognized that their plan for foreign-financed spending was ambitious, but were not convinced of the need to aim for a lower deficit target in light of post-crisis spending needs.

Kenya: Fiscal Scenario, 2007/08 - 20010/11
(In percent of GDP, unless otherwise indicated)

	2007/08	2008/09		2009/10	2010/2011
	Staff Estimate	Authorities' Budget [1/]	Staff Projection	Staff Projection	
		(In percent of GDP)			
Total revenue	22.3	21.4	21.6	21.6	21.6
Grants	1.2	1.4	1.3	1.3	1.3
Total expenditure and net lending	28.3	28.1	27.6	26.7	26.7
Overall balance (incl. grants)	-4.8	-5.3	-4.6	-3.8	-3.8
Memorandum items:					
Total public debt	38.8	...	38.0	38.6	38.6
Real GDP growth rate (percent)	3.9	5.8	7.2	6.0	6.6

Sources: Kenyan authorities; and IMF staff estimates and projections.
[1/] Government of Kenya, Budget Strategy Paper 2008.

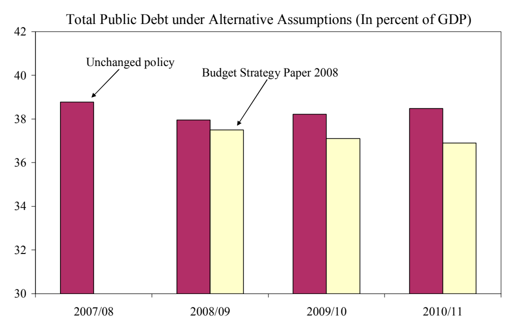
18. **The authorities outlined plans for financing some infrastructure spending from the proceeds of a sovereign bond**. Discussions were still at an early stage, with an envisaged amount of around US$ 500 million. While staff emphasized that concessional funds remained the first-best source of funding, there was agreement that if commercial funds were to be used, market conditions, funding costs, maturity, and the repayment profile needed to be carefully evaluated to maximize the benefits of the bond. Moreover, the size of the issue should not exceed what can effectively be absorbed in high-return projects ready for execution. The authorities indicated that they would cut back on domestically financed development spending, if the bond issuance were delayed. The staff also stressed the need for a comprehensive medium-term debt management strategy and encouraged steps to improve statistics on external financial flows.

19. **The authorities took several measures to mitigate the impact of rising world food prices**. These measures, which entailed very limited fiscal costs, included the zero-rating of VAT on bread and rice, reductions in customs duties for wheat, and steps to make fertilizer available at internationally competitive prices. The discussions covered also targeted support to the most vulnerable segments of the population—for example, an expansion of school feeding programs—but steps in these areas remain contingent on future price and supply developments.

Medium-term fiscal stance—agreement on gradual adjustment and on priority spending

20. **On unchanged policies, little progress would be made in reducing the public debt ratio**. The authorities recognized the limited fiscal consolidation embedded in an unchanged policy scenario—a scenario that assumes no major policy initiatives beyond those already in place (Table 2)—and stressed their commitment to adjustment over the medium-term.

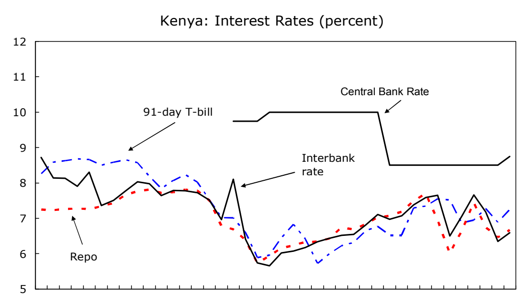
21. **The 2008 Budget Strategy Paper envisaged a gradual reduction of the public debt-to-GDP ratio toward 35 percent over the medium-term—an objective that staff supported**. The authorities underscored that while overall spending (relative to GDP) would decline over the medium-term, the composition would shift toward development spending, in particular to address urgent infrastructure needs. The specific measures to secure this adjustment still needed to be identified, however, in future budgets.



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

D. Monetary and Financial Sector Policy

22. **Monetary policy was fairly accommodative over much of the past three years**. During this period, monetary targets were frequently missed, and real interest rates on treasury bills (even if based on corrected inflation estimates) were often negative. In 2008, the CBK accommodated crisis-related liquidity needs in the early part of the year, but monetary



Source: Central Bank of Kenya.

conditions tightened considerably thereafter. In early June, the Central Bank Rate (CBR) was raised by ¼ percentage point to 9 percent in response to continued inflationary pressures.

23. **Notwithstanding the recent monetary tightening, the CBK agreed that further steps would be required if inflationary pressures did not abate soon**. The authorities explained that the June increase in the CBR had signaled their intention to let market rates rise. Staff stressed the need to employ decisively all available instruments—including, as appropriate, term-deposit auctions and FX reserve sales—to slow reserve money growth to a rate consistent with preventing the second-round effects of higher food and fuel prices; in this regard, the planned introduction of the CBK's own bills could provide a further useful instrument. However, reserve money growth (19 percent, year-on-year, in July) has remained above the level that the CBK and staff had considered consistent with the envisaged decline in inflation during 2008/09.

24. **The discussions covered also alternatives to the money-based monetary framework, including moving to inflation targeting over the medium term**. While monetary policy would benefit from a strong and credible focus on a low inflation target, it was agreed that more work was needed before initiating steps toward alternative frameworks, including possibly inflation targeting. In particular, this would require the resolution of the methodological issues related to the CPI, but also a better understanding of the monetary transmission mechanism and alternative institutional arrangements for monetary policy—areas where the CBK planned further analytical work.

25. **Most indicators suggest a relatively healthy banking system, but the CBK had to help address liquidity shortfalls in a few smaller banks in the first half of 2008**. Market participants expected that the fallout from the economic downturn in the first quarter could somewhat weaken financial soundness indicators (Table 5) in the period ahead. The CBK had provided support to a few banks when interbank liquidity dried up in the context of the heavily oversubscribed Safaricom IPO—when the interbank market did not recycle IPO-related payments from receiving banks to some smaller banks in need of liquidity.

E. Vision 2030 and Structural Reforms

26. **The government's structural reform agenda is centered around its Vision 2030 program**. A key economic target of Vision 2030 is to accelerate annual GDP growth to 10 percent per year by 2012 and sustain this growth thereafter, making Kenya a middle-income country by 2030. A medium term plan that would guide the new poverty reduction strategy was recently derived from Vision 2030. Against this background, discussions focused on selective structural reforms in the Fund's core areas.

27. **The authorities considered a vibrant financial sector as critical for dynamic, broad-based growth**. To this end, they intended to finalize soon a Financial Sector Strategy. They also planned to move forward with a comprehensive revision of the Central Bank and the Banking Acts, including with steps that would bring mandatory and prompt corrective actions in line with international best practices. Moreover, the CBK expected improved efficiency in the money market following the recent dematerialization of treasury bill transactions and the adoption of the Master Repurchase Agreement governing horizontal repurchase agreements. An anti-money laundering bill

is before parliament—although its passage remained uncertain—and the privatization of the National Bank of Kenya is on the agenda.

28. **Concerning structural reforms in the fiscal area, discussions focused on public financial management and the role of public private partnerships (PPPs)**.

- **The authorities concurred with the need to reinvigorate their five-year public financial management reform program**. Plans included: (i) adoption and subsequent implementation of the Public Finance Administration Bill; (ii) expansion of the Integrated Financial Management Information System (IFMIS) to the few remaining ministries and all districts; (iii) introduction of a single treasury account; and (iv) adoption of program budgeting, where a pilot phase is presently underway. There was agreement that if plans to devolve more spending to subnational levels were proceeding, mechanisms needed to be put in place first that would ensure effective coordination with fiscal policy at the central level and strengthen budget reporting and control.

- **PPPs are to raise some of the funding for implementing Vision 2030**. Plans were advancing to finalize a solid framework for PPPs. The authorities recognized that PPPs could play a useful role in infrastructure development, but could also entail fiscal and implementation risks. They were considering staff's suggestion to start with smaller projects until more experience is gained, and agreed on the need to transparently record all PPPs and potential public liabilities.

29. **The authorities intend to update the Governance Action Plan**. The Plan for 2006/07 had provided a useful framework, and the authorities intended to publish outcomes for the actions envisaged under the Plan. This would show important progress in several areas, including on public procurement and business regulations, where improvements placed Kenya among the world's top 10 reformers in the World Bank's 2008 doing business report. The authorities recognized, however, that other objectives were not met. These included public access to the wealth declarations of senior public officials and ongoing verification of wealth declarations by the Kenya Anti-Corruption Commission—areas where staff encouraged progress under the next action program.

30. **Strong medium-term growth will require further regulatory and trade reforms**. While considerable progress has been made in streamlining business licenses, the World Bank's Doing Business Indicators continue to point to high costs in several key areas—findings that are supported by other indicators. On trade reform, the authorities noted the EAC's success in advancing trade integration, and took note of staff's suggestion to work with their partners to lower the common external tariff and remove nontariff barriers. These were expected to be covered in an EAC common market agreement, to be signed by

Kenya: Doing Business Indicators, 2007

Ease of...	World Rank [1]	SSA Rank [2]
Doing Business	*72*	*5*
Of which:		
Starting a Business	112	17
Registering Property	114	14
Paying Taxes	154	37
Trading Across Borders	148	30
Enforcing Contracts	107	19

Source: World Bank, *Doing Business Database.*

[1] Rankings are out of 178 countries. The lower the better.

[2] Rankings are out of 46 countries.

July 2009. Discussions on a full Economic Partnership Agreement with the EU were also to be finalized by mid-2009.

F. *Ex Post* Assessment

31. **The authorities welcomed the opportunity to draw lessons from the longer-term program engagement with the Fund and broadly agreed with most of the EPA conclusions**. They appreciated that the EPA highlighted Kenya's track record of relatively prudent macroeconomic management and its improved performance over the past five years. They also concurred that an earlier re-evaluation of the focus of the Fund's involvement in the governance area would have been helpful. Moreover, they considered that some conditionality, particularly in the governance area, had not reflected realistic timetables or the constraints of Kenya's legal and political systems, and an emphasis on legal and institutional governance reforms should have come earlier. Several non-governmental representatives, but also some among the authorities, expressed concern that the relationship between Kenya and the Fund had often been an unequal one, with the Fund taking advantage of difficult economic circumstances to push for adjustments, with negative consequences for growth and poverty reduction.

IV. Staff Appraisal

32. **Following the political crisis of early 2008, the new government has taken initial steps that, if sustained, could facilitate a relatively quick return to strong economic growth**. The post-election violence interrupted a remarkable five-year rebound, in which economic growth finally caught up with the region. The initial steps by the grand coalition government—including measures to safeguard fiscal stability in 2007/08 while addressing urgent spending needs—provide a good basis for advancing growth- and stability-oriented reforms. Improving political stability and security have already sparked a quick economic rebound and prospects are favorable, if supported by strong policies and provided the world economy does not weaken beyond current forecasts.

33. **While the external current account deficit has increased, there appear to be no major risks to external stability**. The appreciation of the real exchange rate seems broadly in line with economic fundamentals, with strong capital inflows financing the current account deficit and foreign reserves increasing. Under these circumstances, exchange market interventions should remain limited to smoothing excessive short-term volatility and meeting the foreign reserve target.

34. **While the tightening of monetary policy in mid-2008 was welcome, more steps are urgently needed to prevent second-round effects of food and fuel price increases**. This requires employing decisively the available instruments to limit monetary growth to rates consistent with the inflation objectives. Moreover, the methodological issues of the current consumer price index should be resolved quickly to allow an accurate inflation assessment. Over the medium term, broader reforms of the monetary framework could be considered, including moving to explicit inflation targeting, and planned analytical work on the issues is welcome.

35. **Fiscal policy needs to balance spending in support of growth and poverty reduction with preserving macroeconomic stability**. In this context, the 2008/09 budget rightly realigns spending

priorities toward infrastructure and several social objectives, such as free secondary education. More spending may also be needed eventually to provide targeted support to those most vulnerable to the increases in food and fuel prices. However, these spending priorities could be accommodated within an overall smaller-than-budgeted spending envelope. Indeed, in the face of strong growth and inflation pressures, it would seem appropriate to target some reduction in the fiscal deficit, to around 4½ percent of GDP—somewhat below the budget proposal. Importantly, this would also allow a reduction in the public debt-to-GDP ratio.

36. **Consideration could be given to making the public debt-to-GDP ratio a medium-term anchor for fiscal policy**. It would cover not only domestic but also external debt—an increasingly important consideration amid prospects of external commercial borrowing. A sovereign bond could help finance some high-return infrastructure projects, in cases where concessional resources—the first-best option—are not available. Size, timing, and modalities of the issuance are also important considerations to maximize the benefits of a sovereign bond.

37. **Vision 2030 provides appropriately ambitious targets for Kenya—and it is now imperative to advance the structural reforms needed for realizing this vision**. If the private sector is to play its envisaged lead role, further improvements in the investment climate are required. Accelerating financial sector reforms will be key, also to secure the needed increase in domestic resource mobilization. In addition, PPPs could play an important role, but smaller projects should precede larger ones to gain experience in limiting potential fiscal and implementation risks. The public sector also had its part to play in addressing infrastructure bottlenecks, and an important growth impulse could come from further trade reforms.

38. **Continued progress on governance and transparency would be important to achieve the Vision 2030 objectives.** Important progress was made in implementing the 2007/08 governance action plan, such as in public procurement and business regulation. The planned update of the plan should include steps in areas where the original objectives were not met, including for wealth declarations and verifications for senior public officials. Further improving public financial management will also be important to advance transparency, including with measures to expand IFMIS and ensure the efficient use of devolved public resources.

39. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Kenya: Selected Economic Indicators, 2005/06-2012/2013

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
			Estimate			Projection		
	(Annual percentage change, unless otherwise indicated)							
National accounts and prices								
Real GDP growth (market prices)	6.1	6.7	3.9	7.2	6.0	6.6	6.5	6.5
GDP deflator (average) [1]	6.4	5.5	12.0	11.6	4.8	5.1	5.1	5.1
Consumer price index (annual average) [1]	11.1	10.4	18.5	14.5	5.0	5.0	5.0	5.0
Consumer price index (end of period) [1]	10.9	11.1	29.3	8.0	5.0	5.0	5.0	5.0
Export volume, goods and services	6.4	4.7	3.7	6.3	10.2	9.6	9.7	9.5
Import volume, goods and services	16.7	15.2	3.5	1.1	7.8	9.6	9.8	9.4
Terms of trade, goods	-5.8	-3.0	-11.9	-7.6	-2.3	0.3	0.3	1.1
Ksh per US $ exchange rate (end of period) [2]	69.3	62.6	64.6	...	...	...	...	...
Nominal effective exchange rate (- depreciation; end of period)	4.0	5.9	3.0	...	...	...	...	...
Real effective exchange rate (- depreciation; end of period)	11.8	14.2	7.8	...	...	...	...	...
Money and credit								
M3 (broad money, end of period)	18.0	16.0	18.3	21.8	17.2	16.2	16.1	16.1
M3X (broad money and foreign currency deposits, end period)	14.9	18.9	19.4	17.3	16.0	15.2	15.2	15.2
Reserve money (end of period)	14.0	17.5	19.6	15.0	14.6	14.1	14.1	14.1
	(In percent of GDP, unless otherwise indicated)							
Investment and saving								
Investment	18.0	19.1	20.0	22.0	22.1	22.4	23.1	23.6
Central government	4.2	4.6	6.7	7.4	7.3	7.4	7.8	7.8
Other	13.8	14.5	13.3	14.6	14.8	15.0	15.3	15.8
Gross national saving	16.0	16.7	15.4	15.3	16.6	17.2	17.9	18.3
Central government	0.0	2.0	1.2	1.8	2.3	2.4	2.3	2.1
Other	16.0	14.8	14.3	13.5	14.3	14.8	15.6	16.2
Central government budget								
Total revenue	20.5	21.7	22.3	21.6	21.6	21.6	21.6	21.6
Total expenditure and net lending	25.2	24.4	28.3	27.6	26.7	26.7	27.3	27.5
Overall balance (commitment basis) excluding grants	-4.7	-2.7	-6.0	-5.9	-5.2	-5.2	-5.7	-5.9
Overall balance (commitment basis) including grants	-3.4	-1.8	-4.8	-4.6	-3.8	-3.8	-4.2	-4.3
Net domestic borrowing	1.9	2.0	1.1	2.2	2.5	2.5	2.6	2.7
Total donor support (grants & loans)	1.9	1.5	2.5	2.6	2.8	2.9	3.3	3.3
Balance of payments								
Exports value, goods and services	26.6	25.5	24.9	25.2	25.1	25.2	25.4	26.9
Imports value, goods and services	35.9	35.2	36.6	39.2	37.6	37.1	36.9	38.6
Current external balance, including official transfers	-2.0	-2.4	-4.6	-6.7	-5.4	-5.2	-5.2	-5.3
Current external balance, excluding official transfers	-2.3	-2.4	-4.8	-6.7	-5.4	-5.2	-5.2	-5.3
Gross international reserve coverage in months of next year imports (end of period)	3.3	2.9	3.1	3.1	3.1	3.1	3.1	3.2
Public Debt								
Total government debt (end of period)	45.1	42.3	38.8	38.0	38.6	38.6	38.7	39.6
of which: external debt	26.7	22.8	20.3	20.3	20.2	19.6	19.2	19.4
NPV of central government debt (end of period)	37.9	35.6	32.5	31.9	32.8	32.9	33.2	34.0
of which: NPV of external debt	19.5	16.1	14.0	14.2	14.3	14.0	13.7	13.8

Sources: Kenyan authorities; and IMF staff estimates and projections.
[1] Up to 2007/08, GDP Deflator and Consumer Price Index are overestimated (see Box 1).
[2] Actual as of end June, 2008.

Table 2a. Kenya: Central Government Financial Operations, 2005/06-2012/13 1/

	2005/06	2006/07	2007/08		2008/09		2009/10	2010/11	2011/12	2012/13
	Actual	Actual	EBS/07/124	Staff Projection	Budget	Staff Projection	Projection			
	(In billions of Kenyan shillings, unless otherwise indicated)									
Revenue	311.3	373.0	427.2	442.2	512.7	513.7	569.3	637.6	715.8	801.5
Income tax	113.9	131.5	151.8	165.1	194.0	190.5	211.8	237.1	265.3	296.8
Import duty (net)	20.5	27.5	32.3	32.9	36.5	38.6	42.0	46.6	53.2	60.4
Excise duty	50.3	56.4	65.6	61.9	72.9	72.4	80.9	91.2	102.8	114.7
Value-added tax	76.3	96.3	112.2	111.9	133.9	135.4	149.8	167.6	188.2	210.6
Investment income	2.2	6.6	2.7	3.1	5.7	5.7	6.3	7.1	7.9	8.8
Other	25.2	28.4	30.6	29.8	34.7	35.9	39.9	44.8	50.1	56.1
Ministerial and Departmental Fees (AIA)	22.8	26.4	32.0	37.4	35.1	35.1	38.6	43.2	48.4	54.1
Expenditure and net lending	382.8	419.5	557.3	562.0	673.0	654.5	705.6	790.5	903.4	1,019.6
Recurrent expenditure	315.1	339.2	403.8	422.1	471.7	472.0	508.2	566.7	641.0	724.4
Interest payments	41.2	42.5	49.7	47.9	56.7	57.0	61.7	72.0	87.4	98.9
Domestic interest	31.4	36.9	44.0	42.2	49.4	49.4	54.3	62.4	76.3	85.5
Foreign interest due	9.8	5.7	5.7	5.7	7.2	7.6	7.4	9.6	11.1	13.4
Wages and benefits (civil service)	112.3	127.3	144.0	146.4	162.0	162.0	174.7	195.8	219.1	245.3
Civil service reform	1.3	1.4	0.5	0.8	0.2	0.2	0.2	0.2	0.2	0.2
Pensions, etc.	19.8	20.4	24.4	24.3	27.1	27.1	31.6	36.7	42.2	48.6
Other	111.8	119.0	139.6	157.1	171.4	171.4	187.7	209.1	232.8	265.2
Defense and NSIS 2/	29.3	28.7	45.7	45.8	50.8	50.8	52.3	52.9	59.2	66.3
Pending bills	-0.5	-0.1	0.0	-0.2	3.6	3.6	0.0	0.0	0.0	0.0
Development and net lending	67.7	80.3	147.8	140.0	198.3	179.4	194.3	220.6	259.0	291.7
Domestically financed	40.5	53.5	81.1	87.8	113.3	113.3	118.1	132.3	148.1	165.8
Foreign financed	23.1	26.1	60.3	45.8	81.2	62.4	74.2	86.2	108.9	123.8
Net lending	1.0	1.4	2.4	2.4	2.1	2.1	2.0	2.0	2.0	2.0
Pending bills	-1.0	-0.7	0.0	0.0	1.6	1.6	0.0	0.0	0.0	0.0
Drought Development Expenditure	4.0	0.0	4.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Civil Contingency Fund	0.0	0.0	2.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0
Drought expenditures	0.0	0.0	3.7	0.0	1.0	1.0	1.1	1.2	1.4	1.6
Balance (commitment basis, excluding grants)	-71.6	-46.5	-130.1	-119.8	-160.2	-140.8	-136.4	-152.9	-187.6	-218.1
Grants	20.1	15.5	30.7	24.2	33.8	30.4	35.1	39.5	48.3	58.3
Food/debt relief grants 3/	0.0	0.0	0.4	0.4	0.0	0.5	0.5	0.5	0.5	0.5
Project grants	15.7	15.5	26.5	20.3	33.8	30.0	34.6	39.1	47.9	57.8
Program grants	4.4	0.0	3.7	3.4	0.0	0.0	0.0	0.0	0.0	0.0
Balance (commitment basis, including grants)	-51.5	-31.0	-99.4	-95.7	-126.4	-110.4	-101.3	-113.4	-139.3	-159.8
Adjustments to cash basis	14.2	1.6	0.4	0.4	-0.4	0.0	0.0	0.0	0.0	0.0
Balance (cash basis, including grants)	-37.2	-29.4	-99.0	-95.3	-126.9	-110.4	-101.3	-113.4	-139.3	-159.8
Financing	35.0	35.5	99.0	99.2	126.9	110.4	101.3	113.4	139.3	159.8
Net foreign financing	-0.2	-3.1	29.0	9.9	58.8	43.4	34.1	40.7	53.8	58.2
Project loans	7.4	10.6	33.4	25.1	47.4	32.0	39.1	46.7	60.6	65.6
Program loans	1.6	0.0	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Commercial (incl. security refinancing) 4/	0.0	0.0	20.2	0.0	33.6	35.1	13.9	13.9	13.9	14.6
Repayments due	-27.5	-16.7	-17.1	-15.7	-16.6	-17.3	-18.9	-19.8	-20.7	-22.0
Change in arrears	12.7	0.7	-8.8	-0.7	-6.1	-6.4	0.0	0.0	0.0	0.0
Rescheduling	5.6	2.2	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Privatization proceeds and other 5/	7.0	4.0	44.9	76.4	13.7	13.7	0.0	0.0	0.0	0.0
Bank restructuring costs 6/	0.0	-20.0	-1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization costs	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Telkom restructuring costs (cash) 7/	…	…	-8.8	-8.8	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring costs (bond) 8/	…	…	-11.5	-9.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring costs (tax arrears) 9/	…	…	-15.0	-19.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank restructuring financing 6/	…	20.0	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization financing	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring financing 8/	…	…	11.5	9.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring financing (tax arrears) 9/	…	…	15.0	19.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	28.3	34.7	34.0	21.8	54.5	53.3	67.2	72.7	85.5	101.7
Financing gap (stat. discrepancy for outturns)	2.2	-6.2	0.0	-3.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP	1,519.4	1,717.5	2,077.8	1,983.3	2,393.2	2,373.8	2,637.9	2,955.5	3,308.6	3,703.1
Primary budget balance	4.0	13.2	-49.3	-47.4	-70.2	-53.4	-39.6	-41.4	-51.9	-61.0
Stock of domestic debt, net (end of period)	280.1	334.7	381.3	366.5	421.0	419.8	487.0	559.6	645.1	746.8
NPV of total public debt	576.0	611.9	…	643.7	…	756.4	864.9	972.6	1,097.5	1,257.7
Total public debt	686.0	725.8	…	768.9	…	901.0	1,018.6	1,140.3	1,281.1	1,465.4

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

1/ Fiscal year ending June 30. Projections from 2009/10 onward are based on the unchanged policy scenario (see text).
2/ Includes a one-time allocation for payment of security-related arrears of Ksh 2 billion in 2007/08 budget.
3/ Includes debt relief from a debt swap deal with Italy.
4/ In 2008/09, this includes a US$ 500 million sovereign bond, of which some proceeds will be used to clear security related arrears.
5/ In 2008/09, this includes repayment from parastatals of expenditures that are pre-financed during 2008/09 by the central government budget.
6/ Operation consists of recapitalization of National Bank of Kenya and financing this through issuance of a special purpose bond.
7/ Operation consists of recapitalization of Kenya Telkom on account of its pension obligations and restructuring operation and financing this through cash injection.
8/ Operation consists of recapitalization of Kenya Telkom on account of its pension obligations and restructuring operation and financing this through issuance of a special purpose bond.
9/ Operation consists of clearance of tax arrears of Kenya Telkom to KRA and Ministry of Finance.

Table 2b. Kenya: Central Government Financial Operations (percent of GDP), 2005/06-2012/13 [1/]

	2005/06	2006/07	2007/08		2008/09		2009/10	2010/11	2011/12	2012/13
	Actual	Actual	EBS/07/124	Staff Projection	Budget	Staff Projection	Projection			
	(In percent of GDP, unless otherwise indicated)									
Revenue	20.5	21.7	20.6	22.3	21.4	21.6	21.6	21.6	21.6	21.6
Income tax	7.5	7.7	7.3	8.3	8.1	8.0	8.0	8.0	8.0	8.0
Import duty (net)	1.3	1.6	1.6	1.7	1.5	1.6	1.6	1.6	1.6	1.6
Excise duty	3.3	3.3	3.2	3.1	3.0	3.1	3.1	3.1	3.1	3.1
Value-added tax	5.0	5.6	5.4	5.6	5.6	5.7	5.7	5.7	5.7	5.7
Investment income	0.1	0.4	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.7	1.7	1.5	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Ministerial and Departmental Fees (AIA)	1.5	1.5	1.5	1.9	1.5	1.5	1.5	1.5	1.5	1.5
Expenditure and net lending	25.2	24.4	26.8	28.3	28.1	27.6	26.7	26.7	27.3	27.5
Recurrent expenditure	20.7	19.8	19.4	21.3	19.7	19.9	19.3	19.2	19.4	19.6
Interest payments	2.7	2.5	2.4	2.4	2.4	2.4	2.3	2.4	2.6	2.7
Domestic interest	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.3	2.3
Foreign interest due	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Wages and benefits (civil service)	7.4	7.4	6.9	7.4	6.8	6.8	6.6	6.6	6.6	6.6
Civil service reform	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions, etc.	1.3	1.2	1.2	1.2	1.1	1.1	1.2	1.2	1.3	1.3
Other	7.4	6.9	6.7	7.9	7.2	7.2	7.1	7.1	7.0	7.2
Defense and NSIS 2/	1.9	1.7	2.2	2.3	2.1	2.1	2.0	1.8	1.8	1.8
Pending bills	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Development and net lending	4.5	4.7	7.1	7.1	8.3	7.6	7.4	7.5	7.8	7.9
Domestically financed	2.7	3.1	3.9	4.4	4.7	4.8	4.5	4.5	4.5	4.5
Foreign financed	1.5	1.5	2.9	2.3	3.4	2.6	2.8	2.9	3.3	3.3
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Pending bills	-0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Drought Development Expenditure	0.3	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Civil Contingency Fund	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Drought expenditures	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (commitment basis, excluding grants)	-4.7	-2.7	-6.3	-6.0	-6.7	-5.9	-5.2	-5.2	-5.7	-5.9
Grants	1.3	0.9	1.5	1.2	1.4	1.3	1.3	1.3	1.5	1.6
Food/debt relief grants 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	1.0	0.9	1.3	1.0	1.4	1.3	1.3	1.3	1.4	1.6
Program grants	0.3	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Balance (commitment basis, including grants)	-3.4	-1.8	-4.8	-4.8	-5.3	-4.6	-3.8	-3.8	-4.2	-4.3
Adjustments to cash basis	0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (cash basis, including grants)	-2.5	-1.7	-4.8	-4.8	-5.3	-4.6	-3.8	-3.8	-4.2	-4.3
Financing	2.3	2.1	4.8	5.0	5.3	4.6	3.8	3.8	4.2	4.3
Net foreign financing	0.0	-0.2	1.4	0.5	2.5	1.8	1.3	1.4	1.6	1.6
Project loans	0.5	0.6	1.6	1.3	2.0	1.3	1.5	1.6	1.8	1.8
Program loans	0.1	0.0	0.1	0.1	0.0	0.0	0	0.0	0.0	0.0
Commercial (incl. security refinancing) 4/	0.0	0.0	1.0	0.0	1.4	1.5	0.5	0.5	0.4	0.4
Repayments due	-1.8	-1.0	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6
Change in arrears	0.8	0.0	-0.4	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0
Rescheduling	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds and other 5/	0.5	0.2	2.2	3.9	0.6	0.6	0.0	0.0	0.0	0.0
Bank restructuring costs 6/	0.0	-1.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring costs (cash) 7/	...	...	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring costs (bond) 8/	...	...	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring costs (tax arrears) 9/			-0.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank restructuring financing 6/	...	1.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization financing	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring financing 8/	...	...	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Telkom restructuring financing (tax arrears) 9/	...	...	0.7	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic borrowing	1.9	2.0	1.6	1.1	2.3	2.2	2.5	2.5	2.6	2.7
Financing gap (stat. discrepancy for outturns)	0.1	-0.4	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (billion of Ksh)	1,519.4	1,717.5	2,077.8	1,983.3	2,393.2	2,373.8	2,637.9	2,955.5	3,308.6	3,703.1
Primary budget balance	0.3	0.8	-2.4	-2.4	-2.9	-2.2	-1.5	-1.4	-1.6	-1.6
Stock of domestic debt, net (end of period)	18.4	19.5	18.4	18.5	17.6	17.7	18.5	18.9	19.5	20.2
NPV of total public debt	37.9	35.6	...	32.5	...	31.9	32.8	32.9	33.2	34.0
Total public debt	45.1	42.3	...	38.8	...	38.0	38.6	38.6	38.7	39.6

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

1/ Fiscal year ending June 30. Projections from 2009/10 onward are based on the unchanged policy scenario (see text).
2/ Includes a one-time allocation for payment of security-related arrears of Ksh 2 billion in 2007/08 budget.
3/ Includes debt relief from a debt swap deal with Italy.
4/ In 2008/09, this includes a US$ 500 million sovereign bond, of which some proceeds will be used to clear security related arrears.
5/ In 2008/09, this includes repayment from parastatals of expenditures that are pre-financed during 2008/09 by the central government budget.
6/ Operation consists of recapitalization of National Bank of Kenya and financing this through issuance of a special purpose bond.
7/ Operation consists of recapitalization of Kenya Telkom on account of its pension obligations and restructuring operation and financing this through cash injection.
8/ Operation consists of recapitalization of Kenya Telkom on account of its pension obligations and restructuring operation and financing this through issuance of a special purpose bond.
9/ Operation consists of clearance of tax arrears of Kenya Telkom to KRA and Ministry of Finance.

Table 3. Kenya: Monetary Survey, 2005-2009

	Jun-05	Jun-06	Jun-07	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
					Projection			
	(In Billions of Kenya Shillings)							
Central Bank of Kenya (CBK)								
Net foreign assets 1/	95.7	159.5	174.2	213.9	211.6	213.9	216.2	228.9
In Millions of US $	1,212	2,159	2,357	2,896	3,067	3,078	3,089	3,192
Net domestic assets	-1.2	-51.8	-47.7	-62.7	-58.7	-31.8	-47.6	-55.0
Net domestic credit	1.7	-37.0	-16.8	-21.5	-17.3	11.9	-3.7	-9.8
Government (net)	5.1	-15.8	-3.5	-28.4	-5.6	21.3	7.5	9.5
Private sector credit (CBK staff loans)	2.0	2.2	2.3	2.4	2.4	2.5	2.5	2.5
Commercial banks (net REPOS)	-5.3	-23.4	-15.7	4.5	-14.2	-11.9	-13.8	-21.8
Other items (net)	-2.9	-14.8	-30.9	-41.2	-41.3	-43.7	-43.8	-45.2
Reserve money (RM)	94.4	107.7	126.5	151.2	153.0	182.1	168.6	173.9
Currency outside banks	59.3	67.2	78.1	84.0	95.3	115.2	99.9	98.1
Bank reserves	35.1	40.5	48.3	67.2	57.7	66.9	68.7	75.8
Required Reserves 2/	25.9	30.0	35.2	42.2	46.6	49.1	52.4	54.6
Excess Reserves	1.2	1.5	1.5	8.8	3.1	9.8	9.0	9.3
Cash in till	8.0	9.0	11.7	16.2	8.0	8.0	7.3	11.9
Banks								
Net foreign assets 1/	52.8	32.1	65.6	102.1	96.0	93.3	87.6	80.6
Reserves	35.1	40.5	48.3	67.2	57.7	66.9	68.7	75.8
Credit to CBK	5.3	23.4	15.7	-4.5	14.2	11.9	13.8	21.8
Net domestic assets	374.2	442.3	512.0	610.4	609.5	645.8	703.4	731.5
Domestic credit	459.2	535.3	608.3	738.7	696.8	743.8	810.5	852.4
Government (net)	107.2	133.7	160.6	161.1	163.8	164.4	165.1	162.4
Other public sector	10.3	12.2	12.5	10.1	13.0	14.8	16.0	10.4
Private sector	341.7	389.5	435.2	567.6	520.0	564.6	629.4	679.6
Other items (net)	-85.0	-93.0	-96.3	-128.4	-87.3	-98.0	-107.1	-120.9
Total deposits	467.5	538.3	641.7	775.2	777.4	817.9	873.5	909.6
Monetary survey								
Net foreign assets 1/	148.4	191.6	239.8	316.0	307.6	307.2	303.8	309.5
Net domestic assets	378.3	413.9	480.0	543.1	565.0	625.9	669.6	698.3
Domestic credit	466.3	521.7	607.1	712.8	693.6	767.6	820.6	864.4
Government (net)	112.3	117.9	157.2	132.7	158.2	185.7	172.6	171.9
Rest of the economy	354.0	403.8	450.0	580.1	535.4	581.9	647.9	692.5
Other public sector	10.3	12.2	12.5	10.1	13.0	14.8	16.0	10.4
Private	343.7	391.6	437.5	570.0	522.4	567.1	631.9	682.2
Other items (net)	-88.0	-107.8	-127.1	-169.6	-128.6	-141.7	-150.9	-166.2
Money and quasi money (M3)	442.4	522.0	605.5	716.4	745.4	803.4	841.1	872.8
M3 and foreign currency deposits (M3X)	526.8	605.5	719.8	859.2	872.7	933.1	973.5	1,007.8
Currency outside banks	59.3	67.2	78.1	84.0	95.3	115.2	99.9	98.1
Deposits	467.5	538.3	641.7	775.2	777.4	817.9	873.5	909.6
of which: foreign currency deposits	84.4	83.5	114.3	142.8	127.2	129.8	132.4	135.0
Memorandum items:								
	(In Percent of Annual Change)							
Money and quasi money (M3)	8.6	18.0	16.0	18.3	18.1	20.5	20.7	21.8
M3 and foreign currency deposits (M3X)	11.3	14.9	18.9	19.4	17.3	17.0	17.1	17.3
Reserve Money	4.7	14.0	17.5	19.6	16.5	17.0	12.0	15.0
Currency outside banks	6.6	13.3	16.2	7.5	19.0	20.0	17.6	16.9
Net domestic assets of the banking sector	7.0	9.4	16.0	13.2	12.2	18.8	21.0	28.6
Domestic credit	7.8	11.9	16.4	17.4	13.6	14.2	15.9	21.3
Government (net)	-19.3	5.0	33.3	-15.6	-1.4	32.2	5.6	29.6
Rest of the economy	20.6	14.1	11.4	28.9	19.0	9.5	19.1	19.4
Non-bank holdings of government debt, billions of Ksh	137	159.9	175.1	196.4	184.2	170.0	196.4	210.4
Stock of domestic debt, billions of Ksh	249	277.8	332.3	329.1	342.4	355.7	369.0	382.3
Multiplier (M3/RM)	5.7	5.6	5.7	5.7	5.7	5.1	5.8	5.8
Velocity (GDP/M3)	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.4

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

1/ From September 2008, use of program exchange rate stopped.
2/ Calculated as 6% of total deposit excluding those at NBK, up to 2008.

Table 4. Kenya: Balance of Payments, 2005/06-2012/13
(In millions of U.S. dollars, unless otherwise indicated)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
		Est.	Prel.			Projection		
Current account	-404	-586	-1,391	-2,283	-2,069	-2,232	-2,479	-2,696
Excluding official transfers	-466	-586	-1,446	-2,283	-2,069	-2,232	-2,479	-2,696
Exports, f.o.b.	3,508	3,835	4,701	5,460	6,095	6,881	7,765	8,796
Coffee	134	155	160	162	173	183	195	216
Tea	612	675	801	849	830	879	948	1,060
Horticulture	472	559	699	827	921	1,066	1,253	1,447
Imports, f.o.b.	-6,295	-7,461	-9,453	-11,256	-12,153	-13,503	-15,101	-16,847
Oil	-1,545	-1,833	-2,489	-3,244	-3,509	-3,746	-4,027	-4,282
Balance on goods	-2,787	-3,626	-4,752	-5,796	-6,057	-6,621	-7,336	-8,051
Services (net)	855	1,239	1,200	1,064	1,308	1,562	1,819	2,087
Credit	1,988	2,419	2,838	3,064	3,451	3,880	4,338	4,841
Foreign travel credit 1/	631	794	801	742	875	1,019	1,172	1,348
Debit	-1,133	-1,180	-1,638	-2,000	-2,142	-2,318	-2,520	-2,753
Balance on goods and services	-1,932	-2,387	-3,552	-4,732	-4,749	-5,059	-5,517	-5,964
Income (net)	-38	-44	-24	52	56	18	32	1
Credit	86	106	147	188	204	221	243	273
Debit	-124	-150	-171	-136	-148	-203	-211	-272
of which : official interest payments	-86	-82	-92	-59	-73	-129	-138	-198
Other	-58	-68	-79	-77	-75	-74	-73	-74
Current transfers (net)	1,566	1,844	2,185	2,396	2,624	2,809	3,006	3,267
Private (net)	1,504	1,844	2,131	2,396	2,624	2,809	3,006	3,267
of which: remittances	625	816	1,010	1,197	1,341	1,435	1,535	1,667
Official (net)	63	0	55	0	0	0	0	0
Capital and financial account	910	839	2,086	2,615	2,485	2,753	3,085	3,385
Capital account (incl. capital transfers)	215	227	320	428	498	563	671	811
Financial account	694	612	1,766	2,187	1,987	2,189	2,414	2,574
Investment assets and liabilities (net)	634	139	734	1,884	1,426	1,503	1,810	2,115
Official, medium and long term	-38	6	235	769	717	679	845	831
Inflows	185	248	499	1,016	976	930	1,106	1,159
Program loans	21	0	20	0	0	0	0	0
Project loans	101	155	395	458	720	674	850	920
Commercial loans 2/	21	21	0	500	200	200	200	200
Government guaranteed/parastatal	42	72	83	58	56	56	56	39
Outflows	-222	-242	-264	-247	-260	-251	-261	-329
Commercial banks (net)	234	-454	-493	257	-188	-199	-230	0
Private (net)	438	587	993	858	897	1,023	1,194	1,284
Short-term (net) and net errors and omissions 3/	61	473	1,032	302	561	686	604	459
Overall balance	506	252	695	332	416	521	606	690
Financing items	-506	-252	-695	-332	-416	-521	-606	-690
Reserve assets (gross)	-766	-370	-720	-227	-398	-493	-572	-644
Use of Fund credit and loans to the Fund (net)	-9	49	51	-14	-18	-28	-34	-45
Change in arrears 4/	150	19	-26	-91	0	0	0	0
Rescheduling	118	50	0	0	0	0	0	0
Remaining gap	0	0	0	0	0	0	0	0
Tentatively identified program support	0	0	0	0	0	0	0	0
Memorandum items:								
Gross official reserves (end of period)	2,353	2,723	3,443	3,670	4,068	4,561	5,134	5,778
in months of next year's imports of goods and services	3.3	2.9	3.1	3.1	3.1	3.1	3.1	3.2
Current account balance (excl. official transfers, percent of GDP)	-2.3	-2.4	-4.8	-6.7	-5.4	-5.2	-5.2	-5.3
Import volume growth, goods (percent)	11.7	9.7	3.5	2.8	8.8	11.6	11.6	10.5
Import value growth, goods (percent)	28.7	18.5	26.7	19.1	8.0	11.1	11.8	11.6
Export volume growth, goods (percent)	7.9	3.8	11.5	11.8	12.7	13.0	12.2	11.0
Export value growth, goods (percent)	13.1	9.3	22.6	16.1	11.6	12.9	12.8	13.3
Change in the terms of trade (goods, percent)	-5.8	-3.0	-11.9	-7.6	-2.3	0.3	0.3	1.1
Public and publicly guaranteed external debt (percent of GDP)	26.7	22.8	20.3	20.3	20.2	19.6	19.2	19.4

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

1/ The foreign travel credit is comprised of two components, recorded tourism inflows and an estimate of additional under-reported tourism receipts.

2/ Includes 2008/09 sovereign bond issuance, which would be used for infrastructure and to clear arrears on suppliers' credits for security-related and other contracts.

3/ This entry is believed to include unrecorded capital flows and remittances from Kenyans working abroad not captured above.

4/ Beginning in 2006/07, the table does not show accumulation of arrears on disputed security-related and other contracts, consistent with the government's budget presentation. Arrears clearance amount in 2008/09 reflects estimate from Kenyan authorities based on an audit of security-related and other contracts.

Table 5. Kenya: Financial Soundness Indicators, December 2003 - May 2008
(In percent)

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Mar-08	May- 08[1]
Capital Adequacy							
Regulatory capital to risk-weighted assets	17.3	16.6	16.4	16.5	18.0	19.5	17.4
Regulatory Tier I capital to risk-weighted assets	16.3	16.2	16.0	16.4	16.8	18.3	16.2
Capital (net worth) to assets	11.8	11.9	12.1	12.4	12.6	12.7	11.4
Asset quality							
Nonperforming loans to gross loans [2]	34.9	29.3	25.6	21.3	10.9	10.5	9.6
Nonperforming loans net of provisions to total capital	60.7	52.7	40.1	28.6	15.1	15.5	15.4
Earnings and Profitability							
Return on assets	2.3	2.1	2.4	2.8	3.0	3.6	3.2
Return on equity	23.2	22.0	25.0	28.6	27.5	33.3	33.7
Liquidity							
Liquid assets to total assets	33.2	32.4	33.1	30.5	35.1	36.1	38.6
Liquid assets to total short-term liabilities	48.9	41.5	40.6	44.4	40.2	40.2	41.0
Customer deposits to total (non-interbank) loans	131.6	135.7	125.1	129.0	138.6	142.6	140.2
Foreign currency liabilities to total liabilities	14.3	17.8	15.9	16.1	16.3	16.4	15.6
Sensitivity to market risk							
Net open positions in FX to capital	12.0	8.0	6.0	7.1	5.4	7.0	7.3
Net open positions in equities to capital	7.9	7.7	10.3	8.7	5.8	5.5	5.6

Source: Central Bank of Kenya; and Fund Staff calculations.

[1] Provisional.

[2] The ratios were computed using gross non-performing loans and gross loans. After 2006, the decline in NPLs refelects the impact of government recapitalization of the National Bank of Kenya (NBK)

Table 6. Kenya: Millennium Development Goals, 1990 - 2005

	1990	1995	2000	2005
Goal 1: Eradicate extreme poverty and hunger				
Income share held by lowest 20%	3.4	6.0	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	22.5	21.2	19.9
Poverty gap at $1 a day (PPP) (%)	12.8	5.9	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	33.5	22.8	..	..
Poverty headcount ratio at national poverty line (% of population)	..	40.0	..	..
Prevalence of undernourishment (% of population)	39	36	..	31
Goal 2: Achieve universal primary education				
Literacy rate, youth total (% of people ages 15-24)	90	..	..	80
Persistence to grade 5, total (% of cohort)	77	..	..	83
Primary completion rate, total (% of relevant age group)	..	..	..	95
School enrollment, primary (% net)	..	..	67	80
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	1	3	4	7
Ratio of girls to boys in primary and secondary education (%)	..	..	97	94
Ratio of young literate females to males (% ages 15-24)	93	..	..	101
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	21.4	26.6	33.2	38.7
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	78	83	75	69
Mortality rate, infant (per 1,000 live births)	64	72	77	79
Mortality rate, under-5 (per 1,000)	97	111	117	120
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	50	45	44	42
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1,000	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Contraceptive prevalence (% of women ages 15-49)	27	33	39	39
Incidence of tuberculosis (per 100,000 people)	108	217	436	641
Prevalence of HIV, female (% ages 15-24)	..	..	..	5.2
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	6.1
Tuberculosis cases detected under DOTS (%)	..	55	46	43
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0.2	0.3	0.3	0.3
Forest area (% of land area)	7	..	6	6
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	2.2	2.3	2.1	2.1
Improved sanitation facilities (% of population with access)	40	..	..	43
Improved water source (% of population with access)	45	..	..	61
Nationally protected areas (% of total land area)	..	..	..	12.6
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	50	27	17	22
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	28.6	24.9	17.2	4.0
Fixed line and mobile phone subscribers (per 1,000 people)	7	10	14	143
Internet users (per 1,000 people)	..	0	3	32
Personal computers (per 1,000 people)	0	1	5	9
Total debt service (% of exports of goods, services and income)	35.4	30.4	20.9	4.4
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..
Other				
Fertility rate, total (births per woman)	5.8	5.2	5.0	5.0
GNI per capita, Atlas method (current US$)	380	270	430	540
GNI, Atlas method (current US$) (billions)	8.8	7.5	13.2	18.4
Gross capital formation (% of GDP)	24.2	21.8	17.4	16.8
Life expectancy at birth, total (years)	58	53	48	49
Literacy rate, adult total (% of people ages 15 and above)	71	..	..	74
Population, total (millions)	23.4	27.2	30.7	34.3
Trade (% of GDP)	57.0	71.7	51.2	62.3

Source: World Development Indicators database.

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Appendix

IMF Executive Board Concludes Article IV Consultation with Kenya

On September, 10, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kenya.[1]

Background

Kenya's macroeconomic performance continued to improve until violence erupted in the aftermath of the general elections of December 2007. GDP growth reached 7.0 percent in 2007, the highest in more than two decades. Economic activity weakened, however, in the wake of the political instability in early 2008 and real GDP is expected to have slowed to about 4 percent in 2007/08 (July/June). Inflation increased sharply in recent months, in part related to developments in global food and fuel prices.

The fiscal deficit (including grants) for 2007/08 is estimated at 4.8 percent of GDP. This was below the original budget target, reflecting foremost a strong revenue performance. For 2008/09, the budget envisages a deficit of 5.3 percent of GDP, with spending shifting toward infrastructure and other priority areas.

Monetary policy was tightened in June 2008 to address rising inflationary pressures. For much of 2007/08, reserve money growth had exceeded the authorities' target and private sector credit growth had also remained robust.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The external current account deficit almost doubled in 2007/08 to 4.6 percent of GDP, due largely to higher oil import prices. Sizable capital inflows contributed to an appreciation of the Shilling against most major currencies and a strengthening of the overall balance of payments position, with gross international reserve increasing to the equivalent of 3.1 months of imports.

An *Ex Post* Assessment of IMF's longer-term program engagement with Kenya found that macroeconomic policy during 1993-2007 was generally appropriately designed with sound implementation. The assessment also found, however, that the approach to governance reform was overly reactive and programs were overloaded—even though governance issues deserved the attention. The authorities considered the draft report to be balanced and objective, and noted that conditionality, particularly in the governance area, did not reflect realistic timetables or the constraints of Kenya's legal system and political environment. Looking forward, the authorities suggested that both sides needed to learn lessons from the past and to aim for a "partnership" rather than a "supervisory" relationship.

Executive Board Assessment

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Kenya: Selected Economic Indicators, 2005/06-2009/10

	2005/06	2006/07	2007/08	2008/09	2009/10
	Actual	Actual	Estimate	Projection	
	(Annual percentage change, unless otherwise indicated)				
National accounts and prices					
Real GDP growth (market prices)	6.1	6.7	3.9	7.2	6.0
Consumer price index (annual average)	11.1	10.4	18.5	14.5	5.0
Consumer price index (end of period)	10.9	11.1	29.3	8.0	5.0
Ksh per US $ exchange rate (end of period)	69.3	62.6	64.6	…	…
Money and credit					
M3 (broad money, end of period)	18.0	16.0	18.3	21.8	17.2
M3X (broad money and foreign currency deposits, end period)	14.9	18.9	19.4	17.3	16.0
Reserve money (end of period)	14.0	17.5	19.6	15.0	14.6
	(In percent of GDP, unless otherwise indicated)				
Investment and saving					
Investment	18.0	19.1	20.0	22.0	22.1
Central government	4.2	4.6	6.7	7.4	7.3
Other	13.8	14.5	13.3	14.6	14.8
Gross national saving	16.0	16.7	15.4	15.3	16.6
Central government	0.0	2.0	1.2	1.8	2.3
Other	16.0	14.8	14.3	13.5	14.3
Central government budget					
Total revenue	20.5	21.7	22.3	21.6	21.6
Total expenditure and net lending	25.2	24.4	28.3	27.6	26.7
Overall balance (commitment basis) excluding grants	-4.7	-2.7	-6.0	-5.9	-5.2
Overall balance (commitment basis) including grants	-3.4	-1.8	-4.8	-4.6	-3.8
Balance of payments					
Exports value, goods and services	26.6	25.5	24.9	25.2	25.1
Imports value, goods and services	35.9	35.2	36.6	39.2	37.6
Current external balance, including official transfers	-2.0	-2.4	-4.6	-6.7	-5.4
Current external balance, excluding official transfers	-2.3	-2.4	-4.8	-6.7	-5.4
Gross international reserve coverage in months of next year imports (end of period)	3.3	2.9	3.1	3.1	3.1
Public Debt					
Domestic debt, net (end of period)	18.4	19.5	18.5	17.7	18.5
Nominal central government debt (end of period)	45.1	42.3	38.8	38.0	38.6
of which: external debt (end of period)	26.7	22.8	20.3	20.3	20.2

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