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November 10, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Kenya - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Kenya, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 26.

Mr. Jimênez (ext. 6952) or Ms. Calika (ext. 6948) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

KENYA

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the 1986
Consultation with Kenya

Approved by A.D. Ouattara and S. Kanesa-Thasan

November 6, 1986

I. Introduction

The 1986 Article IV consultation discussions with Kenya were held in Nairobi during August 28-September 10, 1986. The Kenyan representatives included the Minister of Finance, the Governor of the Central Bank, the Chief Secretary, and other officials from ministries and agencies dealing with economic and financial matters. The staff representatives were Mr. J. M. Jiménez (head-AFR), Ms. N. Kirmani (ETR), Ms. N. Calika (AFR), Mr. D. McDonald (FAD), and Ms. A. Wood (secretary-AFR).

Since November 1978, Kenya has had six stand-by arrangements, ranging from SDR 17.25 million to SDR 241.5 million. The last arrangement, which was for twelve months and for SDR 85.2 million, expired on February 8, 1986. Kenya met all of the performance criteria under the arrangement and made all of the drawings. Kenya has also made use of the special facilities, including oil facility, Trust Fund, SFF Subsidy Account, and compensatory financing facility for export shortfalls and cereal imports. The last such use occurred on December 4, 1985, when Kenya drew SDR 37.9 million (26.7 percent of quota) under the CFF cereal import facility. At the end of September 1986, the Fund holdings of Kenya shillings, subject to repurchase, amounted to 277.2 percent of quota, or 229.2 percent of quota excluding special facilities. During 1986, Kenya will make net repurchases to the Fund (including SDR 9 million in respect of Trust Fund loans) of SDR 99 million, reducing the Fund holdings subject to repurchase to 248.2 percent of quota by year end. Kenya is eligible for the Structural Adjustment Facility.

The last Article IV consultation report was discussed by the Executive Board on October 21, 1985. At that time, Directors commended the Kenyan authorities for successfully handling the economic and financial problems associated with the country's severe drought in 1984-85. The Government's policy had been timely and effective. It had not compromised the Government's prudent domestic financial policy stand, and had preserved the meaningful reductions in the overall budgetary deficit and the external current account deficit begun in 1980/81. Directors noted that the external medium-term outlook remained fragile, and that its viability depended on a number of factors, particularly the continuation of prudent financial policies accompanied by export promotion policies. Directors stressed the need to reduce the overall budgetary deficit and the domestic financing requirements further in future years. They encouraged the authorities to continue with a flexible exchange rate policy and to make progress in import liberalization. Several Directors cautioned that great prudence should be exercised in borrowing decisions, so that the debt service ratio could be kept at a manageable level. Directors believed that continued and active donor support was essential to support Kenya's reform efforts. Kenya continues to avail itself of the transitional arrangements of Article XIV.

Summaries of Kenya's relations with the Fund and the World Bank are found in Attachments II and III, respectively.

II. Background

The weakening of financial policies in FY 1985/86 contrasts with the considerable progress attained by Kenya in stabilizing the economy in earlier years. Despite weak foreign demand resulting from the world recession, an attempted coup in 1982, and an extremely severe drought in 1984, the tenacious application of a broad spectrum of stabilization measures beginning in 1981 allowed for an important reduction of financial imbalances and a major improvement in the external position. The adjustment effort, supported by a series of Fund arrangements, included a flexible exchange rate policy, import liberalization, adjustments in producer prices, improvements in the finances of public enterprises, a significant tightening of fiscal and monetary policies, and the attainment of positive real interest rates. These efforts were supported by a cautious wage policy, which allowed increases in wages of only 75 percent of the rise in consumer prices, and only one general increase in civil service wages since 1980, institutional improvements in budgetary policy formulation and in the control of public enterprises, a reduced reliance on price controls, and the removal of most exchange restrictions.

In 1984 Kenya suffered a drought of serious consequences, which required special financing and distribution of food imports which led to a deterioration in budgetary and other economic indicators. However, the financial policies in place resulted in improvements in the underlying indicators, i.e. excluding the impact of the drought, thereby preserving Kenya's stabilization effort.

The drought, which began in late 1983 and lasted through mid-1985, had an important impact on the economy. Inadequate rainfalls during the short rains (September-November) in 1983 and during the long rains (April-July) in 1984 led to a massive decline in food production, and to the demise of a large proportion of the livestock herd. Agricultural output, including for export, was affected on a wide spectrum. Although donors responded generously to Kenya's plight with increased food aid and other assistance (in terms of transportation and logistics), a large proportion of the emergency requirements was met out of Kenya's own resources, and led to a large external deficit. Kenya has been commended by donors for the timeliness and efficiency of food distribution during the drought.

The return of adequate short rains in 1984 and of exceptionally good weather conditions in 1985 brought much needed relief to the livestock sector, led to a major increase in food production and provided for a rapid turnaround of the economy's growth prospects while reducing inflationary pressures. In 1986, Kenya also enjoyed a major improvement in its terms of trade, as a result of a large increase in coffee prices, coupled with a sizable reduction in petroleum import prices.

Despite the progress made in the financial and external sectors, in the five years ended 1985 real GDP growth averaged under 3 percent, below the population growth rate of about 4 percent (Table 1). Apart from the drought, growth was affected by the reduction in aggregate demand that was part of the stabilization effort, the recessionary conditions of the world economy, the impact of the political crisis in 1982, which brought economic activity to a near standstill, and a reduction in net capital inflows reflecting reduced gross official inflows and a large increase in amortization payments. The debt service ratio peaked in 1985 at 32 percent. During the same period, however, significant progress was made in reducing inflationary pressures. The inflation rate was halved from 20 percent in 1981, to about 10 percent in 1983-85. Food preferences for domestic products and sporadic shortages stimulated inflationary pressures somewhat during the drought period, and did not allow for a further decline in the rate.

As progress was being made in stabilizing the economy, the Government prepared the Fifth Five-Year Development Plan, which was to be launched in 1984. The plan was designed to deal with the structural bottlenecks and to lead to a faster expansion of economic activity. However, the drought emergency did not permit the Government to implement the plan as expected. More recently, in April 1986, the thrust of economic policy has been redefined by the Parliamentary approval of Sessional Paper No. 1 of 1986, which sets the framework of policies for the period to the year 2000. The program is to be implemented through a step-by-step approach, but the specification of policies and their implementation time frame is still to be formulated. The increase in employment is to be given the highest priority.

Table 1. Kenya: Selected Economic and Financial Indicators, 1981-87

	1981	1982	1983	1984	1985	1986 Est.	1987 Proj.
	(Annual percent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices	2.5	1.8	2.6	1.7	3.0	4.9	5.2
GDP deflator	12.2	10.7	9.3	9.2	8.4	8.9	7.0
Consumer prices	20.3	14.3	10.1	10.8	10.5	3.0	8.0
External sector (on the basis of SDRs)							
Exports, f.o.b.	-5.6	-7.5	2.2	16.5	-7.9	11.0	-1.1
Imports, c.i.f.	-9.7	-15.7	-16.2	15.9	-2.2	0.2	-1.3
Non-oil imports, c.i.f.	-16.0	-17.1	-15.7	27.1	-3.3	19.8	-2.1
Export volume	-5.5	-2.9	-4.0	-1.0	5.0	8.0	1.3
Import volume	-21.9	15.3	-21.0	17.7	-6.5	15.4	-3.7
Terms of trade (deterioration -)	-13.9	-4.8	-6.0	17.0	-16.3	18.5	-4.7
Nominal effective exchange rate (depreciation -) 1/	-18.4	-13.4	-0.9	-1.7	-16.3	...	...
Real effective exchange rate (depreciation -) 1/	-10.8	-6.6	4.3	4.7	-9.0	...	...
Government budget 2/							
Revenue and grants	20.3	11.8	7.8	6.9	15.1	19.0	21.0
Total expenditure	24.9	5.3	-1.9	8.0	17.1	25.4	19.8
Money and credit 2/							
Domestic credit	19.1	26.9	6.4	8.9	12.3	21.9	11.3
Government	74.6	55.1	-0.8	3.2	12.7	32.3	18.6
Other sectors	6.8	16.7	9.9	11.4	12.2	17.6	8.0
Money and quasi-money (M2)	7.1	9.1	11.0	11.4	11.7	21.8	22.3
Velocity (GDP relative to M2) 3/	3.3	3.4	3.5	3.5	3.5	3.2	3.0
Interest rate (annual rate) 3/							
Savings deposit (min.)	8.0	10.0	12.5	11.0	11.0	11.0	11.0
Average time deposit	8.8	11.4	13.4	11.5	11.5	11.5	11.5
Maximum lending rate	13.0	14.0	16.0	14.0	14.0	14.0	14.0
	(In percent of GDP)						
Government budget 2/							
Revenue and grants	26.0	25.6	24.5	23.5	24.3	25.6	27.3
Current expenditure	24.7	23.2	22.1	21.2	22.0	23.1	24.4
Current account surplus/deficit (-)	1.4	2.4	2.5	2.3	2.3	2.4	2.9
Development expenditure and net lending	10.0	9.0	6.0	5.9	6.5	8.6	9.1
Overall deficit 4/							
Including grants	9.5	6.5	3.6	3.7	4.3	6.3	6.2
Excluding grants	10.3	7.8	5.2	4.4	6.0	7.9	8.5
Domestic bank financing	2.8	2.6	0.1	1.2	0.9	2.6	1.7
Nonbank financing	1.8	2.3	2.1	2.6	3.1	4.6	...
Foreign financing	4.9	1.6	1.4	-0.1	0.3	-0.9	1.5
Gross domestic investment	28.4	22.4	21.2	21.6	18.6	24.0	25.1
Gross domestic savings	19.4	17.8	20.1	19.2	16.2	22.5	24.3
External current account deficit 5/							
Including grants	10.7	7.6 6/	2.3	3.5	3.9	-0.6	0.6
Excluding grants	11.9	8.9 6/	4.4	5.8	6.3	1.6	2.7
External debt							
External debt inclusive of Fund credit (average stock of debt)	37	42	49	52	52	53	48
Debt service ratio 7/	18	23	26	27	32	30	30
Interest payments 7/	8	11	11	11	11	11	11
	(In millions of SDRs, unless otherwise specified)						
Overall balance of payments	-198	-150 6/	89	45	-92	144	139
Gross official reserves (months of imports) 5/	1.4	1.6	3.5	3.3	3.1	4.0	4.3
External payments arrears	--	--	--	--	--	--	--

Source: Data provided by the Kenyan authorities.

1/ December to December variations.
2/ Fiscal year ending June 30.
3/ Level in percent.
4/ Figures do not add up because of adjustment to cash basis.
5/ Excludes special imports in 1986 and 1987.
6/ Reflects severe constraint on foreign exchange availability.
7/ In percent of exports of goods, services, and remittances.

The budgetary deficit (including grants) which had reached the equivalent of 9.5 percent of GDP (10.3 percent excluding grants) in fiscal year 1980/81 (July-June) was reduced to about 3.7 percent (4.4 percent excluding grants) in 1983/84, but rose to 4.3 percent (6.0 percent excluding grants) in 1984/85 because of drought-related impact estimated at 1.0 percent of GDP (Table 2). The fiscal adjustment was made primarily through expenditure control, since the ratio of revenue to GDP declined during this period, despite new revenue measures that were taken yearly, owing to the less buoyant economic conditions, a reduction in imports and import duties, and the inelasticity of revenues.

Domestic credit growth was reduced from 17 percent of the initial money stock in 1980/81 to about 10 percent in 1983/84, before rising to about 12 percent in 1984/85 (Table 3). Interest rate adjustments during this period ensured that all rates became positive in real terms in 1984. The higher interest rates were particularly effective in helping nonbanks to increase their proportion of overall deposits.

In the external sector, the current account deficit, which had reached the equivalent of about 11 percent of GDP in 1981, was reduced to 3.5 percent in 1984, before rising to 3.9 percent in 1985 (Table 4). The overall balance of payments moved from annual deficits averaging SDR 164 million per year in 1980-82 into surpluses of SDR 89 million in 1983 and SDR 45 million in 1984. Except for the impact of the drought, a surplus would also have been recorded in 1985. The external adjustment was largely carried out in imports, which fell from 33 percent of GDP in 1981 to 25 percent of GDP in 1985, excluding emergency food imports. The reduction was fostered by the adjustment in relative prices effected by the adjustment carried out in the exchange rate. Between end-1980 and end-1985 the Kenya shilling, which is pegged to the SDR, depreciated by about 42 percent in terms of the SDR, and by 17 percent in real effective terms (Chart). 1/ Exports were affected by a decline in the export of oil products.

A new import system was introduced in 1983. It was liberalized in June 1984 and in June 1985 by shifting items to the more liberally licensed categories. These changes, in conjunction with a liberal implementation of the system and several reductions in import duties, have led to a meaningful liberalization of the import system. However, a further liberalization, expected in June 1986, did not take place. At the present time about 42 percent of all import items are licensed virtually automatically (Schedule 1A), while an additional 22 percent are licensed liberally (Schedule 1B). About 35 percent of import items are included in Schedule 2. Of these, 3 percent of all items are included in Schedule 2A Special, which includes such items as petroleum

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1/ A further 5 percent depreciation in real effective terms was carried out in the first eight months of 1986.

Table 2. Kenya: Central Government Operations, 1980/81-1986/87

	1980/81	1981/82	1982/83	1983/84	1984/85	Prog. 1/ 1985/86	Prelim. actual 1985/86	Budget 1986/87	Adjusted budget 2/ 1986/87
	(In millions of Kenya shillings)								
Revenue and grants	14,722	16,454	17,736	18,953	21,817	25,351	25,973	31,773	30,937
Revenue	14,271	15,619	16,590	18,387	20,274	23,107	24,250	28,568	28,232
Grants	451	835	1,146	566	1,543	2,244	1,723	3,205	2,705
Expenditure and net lending	19,650	20,685	20,297	21,919	25,668	29,677	32,197	36,069	38,056
Recurrent expenditure	13,984	14,904	15,959	17,118	19,783	22,100	23,495	26,559	27,546
Development expenditure and net lending	5,666	5,781	4,338	4,801	5,885	7,577	8,702	9,510	10,510
Of which: net lending 3/	(1,349)	(1,475)	(618)	(512)	(541)	(...)	(2,445)	(...)	(...)
Overall deficit (Treasury accounts)	-4,928	-4,231	-2,561	-2,966	-3,851	-4,326	-6,224	-4,296	-7,119
Adjustment to cash basis 4/	-438	66	-27	-16	-16	--	-126	--	--
Overall cash deficit	-5,366	-4,165	-2,588	-2,982	-3,867	-4,326	-6,350	-4,296	-7,119
Financing	5,366	4,165	2,588	2,982	3,867	4,326	6,350	4,296	7,119
Foreign financing	2,764	1,022	1,011	-53	242	726	-923	1,216	1,699
Drawings	(3,498)	(2,152)	(2,493)	(1,719)	(2,994)	(3,334)	(1,936)	(3,903)	(4,386)
Repayments	(-734)	(-1,130)	(-1,482)	(-1,772)	(-2,752)	(-2,608)	(-2,859)	(-2,687)	(-2,687)
Domestic financing	2,602	3,143	1,577	3,035	3,625	3,600	7,273	3,080	5,420
Bank and CSFC	(1,574)	(1,694)	(76)	(966)	(821)	(1,600)	(2,619)	(1,966)	(...)
Nonbank	(1,028)	(1,449)	(1,501)	(2,069)	(2,804)	(2,000)	(4,654)	(1,114)	(...)
Overall cash deficit (excl. grants)	-5,817	-5,000	-3,734	-3,548	-5,410	-6,570	-8,073	-7,501	-9,824
Memorandum items:	(In percent of GDP)								
Revenue and grants	26.0	25.6	24.5	23.5	24.3	25.0	25.6	27.6	26.9
Revenue	25.2	24.3	22.9	22.8	22.6	22.7	23.9	24.8	24.5
Grants	0.8	1.3	1.6	0.7	1.7	2.2	1.7	2.8	2.3
Expenditure and net lending	34.8	32.1	28.0	27.2	28.6	29.2	31.7	31.3	33.1
Recurrent expenditure	24.7	23.2	22.1	21.2	22.0	21.8	23.1	23.1	23.9
Development expenditure and net lending	10.0	9.0	6.0	5.9	6.5	7.5	8.6	8.3	9.1
Of which: net lending 3/	(2.4)	(2.3)	(0.9)	(0.6)	(0.6)	(...)	(2.4)	(...)	(...)
Overall cash deficit	-9.5	-6.5	-3.6	-3.7	-4.3	-4.3	-6.3	-3.7	-6.2
Overall cash deficit (excl. grants)	-10.3	-7.8	-5.2	-4.4	-6.0	-6.5	-7.9	-6.5	-8.5
Foreign financing	4.9	1.6	1.4	-0.1	0.3	0.7	-0.9	1.1	1.5
Domestic financing	4.6	4.9	2.2	3.8	4.0	3.5	7.2	2.7	4.7
Bank	2.8	2.6	0.1	1.2	0.9	(1.6)	(2.6)	(1.7)	(...)
Nonbank	1.8	2.3	2.1	2.6	3.1	(2.0)	(4.6)	(1.0)	(...)

Sources: The Appropriation Accounts, various years; Economic Survey, various years; budget documents, 1986/87; data provided by the Kenyan authorities; and staff estimates.

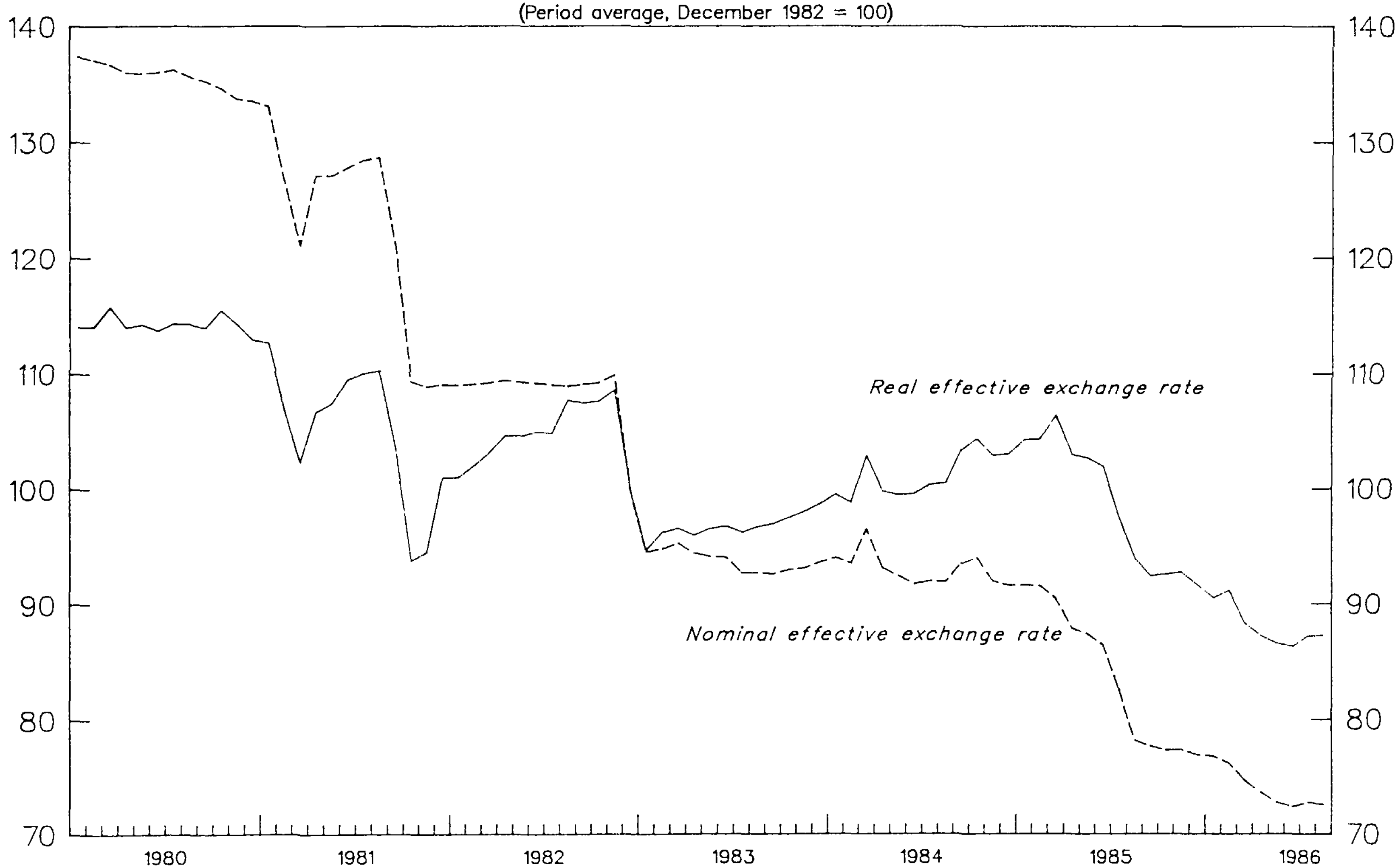
1/ As presented in EBS/85/217, except for some minor reorganization of data. The GDP ratios differ from EBS/85/217, however, owing to revisions in the GDP series.
2/ Adjustments made in light of information provided by the authorities concerning items for which no budgetary allocation had been made or for which the budgetary estimate needed to be revised. The increase in foreign financing relative to the original budget reflects financing related to special imports which have been added to expenditure.
3/ Including purchase of equities.
4/ The adjustment factor arises because financing data are derived from different sources than revenue and expenditure data. It includes a float element resulting from some checks being issued but not cashed.

CHART

KENYA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, JAN. 1980 – AUG. 1986[1]

(Period average, December 1982 = 100)



Sources: IMF Data Fund; and staff estimates.

[1] Import-weighted; increase in the index indicates appreciation.

Table 3. Kenya: Monetary Survey, December 1984-June 1986

(In millions of Kenya shillings)

	1984	1985				1986	
	Dec.	March	June	Sept.	Dec.	March	June
Net foreign assets	86	907	-427	-1,744	-1,759	-381	-408
Central Bank	267	809	-231	-1,662	-1,584	-394	-356
Commercial banks	-180	98	-196	-82	-174	13	-52
Total domestic credit	28,094	26,687	28,113	30,026	31,600	32,839	34,259
Government (net)	9,037	7,122	8,108	9,005	9,954	10,258	10,727
Other public entities	2,113	2,194	2,300	2,299	2,397	2,343	2,255
Private sector	16,944	17,371	17,705	18,723	19,248	20,238	21,277
Other items (net)	-2,405	-1,306	-1,847	-2,073	-1,438	-1,456	-2,374
Interbank float	-87	17	13	25	29	-39	43
Commercial banks' other items (net)	-1,778	-1,750	-1,571	-2,422	-2,073	-1,733	-2,084
Central Bank's other items (net)	-540	427	-289	324	606	316	-332
Money and Quasi-money	25,775	26,287	25,838	26,210	28,404	31,004	31,477
Money	13,628	14,042	13,407	13,543	14,474	16,414	16,167
Quasi-money	12,147	12,245	12,431	12,666	13,931	14,589	15,310
			(Annual change in percent)				
Total domestic credit	10.7	11.7	12.3	8.3	12.5	23.1	21.9
Government (net)	11.0	8.2	12.7	-3.7	10.2	44.0	32.3
Other public entities	14.0	5.4	-4.1	4.9	13.4	6.8	-2.0
Private sector	10.2	14.1	14.7	15.8	13.6	16.5	20.2
Money and quasi-money	12.9	15.1	11.7	6.7	10.2	17.9	21.8
Money	14.1	15.0	8.1	2.2	6.2	16.9	20.6
Quasi-money	11.5	15.2	15.8	12.0	14.7	19.1	23.2
			(Change as a ratio to the stock of liquid liabilities 12 months earlier)				
Total domestic credit	11.9	12.3	13.3	9.4	13.6	23.4	23.8
Government (net)	3.9	2.4	4.0	-1.4	3.6	11.9	10.1
Other public entities	1.1	0.5	-0.4	0.4	1.1	0.6	-0.2
Private sector	6.8	9.4	9.8	10.4	8.9	10.9	13.8

Source: Central Bank of Kenya.

Table 4. Kenya: Balance of Payments, 1981-86

	1981	1982	1983	1984	1985 Prog. 1/	1985 Act.	1986 Est.
	(In millions of SDRs)						
Current account	-606	-432	-125	-199	-277	-222	-152
Exports, f.o.b.	915	846	865	1,008	981	928	1,030
Coffee	205	240	225	276	258	277	445
Tea	115	129	173	257	195	230	175
Oil products	213	151	174	137	148	96	53
Other	382	326	293	340	380	326	358
Imports, c.i.f.	-1,850	-1,559	-1,306	-1,514	-1,555	-1,481	-1,484 2/
Government	-289	-148	-108	-169	-201	-136	-148
Food	(-25)	(-26)	(-12)	(-83)	(-110)	(-64)	(-7)
Other	(-264)	(-122)	(-96)	(-86)	(-91)	(-72)	(-141)
Oil	-652	-566	-469	-450	-459	-452	-251
Other	-909	-845	-729	-895	-895	-893	-1,085
Trade balance	-935	-713	-441	-506	-574	-553	-454
Services (net)	244	218	208	163	167	185	168
Private transfers	19	-7	-5	4	4	8	8
Official transfers	66	70	113	140	126	139	126
Capital account	401	282	214	243	177	129	296
Long-term (net)	347	252	212	199	160	97	276
Official	(210)	(145)	(130)	(81)	(39)	(-24)	(153) 3/
Private	(137)	(107)	(82)	(118)	(121)	(121)	(123)
Short-term (net) 4/	54	30	2	44	17	32	20
SDR allocations	7	--	--	--	--	--	--
Overall balance	-198	-150	89	45	-100	-92	144
Financing	198	150	-89	-45	100	92	-144
Gross reserves	176	5	-169	-37	56	36	-54
IMF (net)	23	135	88	-11	45	55	-90
Other assets (net)	-1	9	-8	3	-1	1	--
Memorandum items:							
Gross reserves (end of period)	215	210	379	416	358	380	434
Gross reserves (in months of imports)	1.4	1.6	3.5	3.3	2.8	3.1	3.5 5/
	(In percent of GDP)						
Current account deficit							
Including official grants	10.7	7.6	2.3	3.5	4.5	3.9	2.6 6/
Excluding official grants	11.9	8.9	4.4	5.8	6.5	6.3	4.8 6/
Official net capital inflow plus official grants	4.9	3.8	4.5	3.8	2.7	2.0	4.9 7/

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

1/ As contained in EBS/85/217 (9/13/85).
2/ Includes special imports totaling SDR 187 million related to military and civilian aircraft, and imports associated with the Turkwell hydroelectricity project.
3/ Includes loans totaling SDR 191 million for the financing of the special imports described in footnote 2 and an IDA loan.
4/ Includes errors and omissions and valuation adjustments.
5/ Excluding the special imports described in footnote 2, reserves would be the equivalent of 4 months' imports.
6/ Excluding the special imports described in footnote 2, the current account would be in surplus equivalent to 0.6 percent of GDP, including official grants; it would be in deficit of 1.6 percent of GDP, excluding official grants.
7/ Excluding the special loans mentioned in footnote 3, this ratio would be 1.5 percent.

products and fertilizers, which are freely importable upon the approval of specific supervising agencies. The remaining 32 percent of all items, included in Schedule 2B, are restricted largely for the purpose of industrial protection. On the basis of the 1983/84 import values, Schedule 1A reached the equivalent of 39 percent of imports, with Schedule 1B accounting for an additional 9 percent. Schedule 2A Special accounted for 46 percent of imports, with the remaining 6 percent of imports in Schedule 2B.

The improved weather conditions in 1986 promoted rapid growth in the agricultural sector, leading not only to a bumper grain harvest, but also to near record output of other products. High coffee prices further boosted incomes, with a beneficial impact on the other sectors of the economy. Growth of real GDP is now estimated at about 5 percent and real GDP adjusted for the terms of trade is projected to rise by 9 percent.

The favorable developments with respect to food production and stable energy prices have provided a downward pressure on prices, with the cost of living rising by only 1.5 percent in the first eight months of 1986, compared with 9.0 percent for the similar period in 1985.

The improvement in the terms of trade in 1986 substantially eased Kenya's external constraints. An improvement in the terms of trade of 18.5 percent is estimated for 1986, with only a small reversal of about 4.7 percent projected in 1987. Despite a large amount of aircraft imports, the current account deficit is projected to fall to 2.6 percent of GDP in 1986. Excluding the special imports, the current account would have recorded an overall surplus of 0.6 percent. The special imports, which are mostly foreign financed, are responsible for a large increase in net capital inflows. An overall balance of payments surplus of SDR 144 million (2.5 percent of GDP) is presently projected for 1986.

Budgetary policy suffered a reversal in 1985/86, when the overall budgetary deficit rose to 6.3 percent of GDP (7.9 percent excluding grants). Nonbank financing reached 4.6 percent of GDP, compared to 3.1 percent in the previous year, with the National Social Security Fund and various trust funds making large contributions. There was a more than proportional increase in domestic financing than the rise in the overall deficit due to a decline in foreign financing. The increase in the deficit reflected a high expenditure growth rate, with about 1.7 percent of GDP resulting from transfers to NCPB for the maize stocks. For the first time in five years, the ratio of revenue to GDP expanded strongly. After having fallen to 22.6 percent in 1984/85 from a high of 25.2 percent in 1980/81, the ratio of revenue to GDP recovered to 23.9 percent in 1985/86 in part reflecting the upturn on the economy. As the level of grants in terms of GDP remained unchanged, the ratio of revenues and grants to GDP increased by the same amount as the ratio of revenue to GDP.

Credit conditions eased considerably in 1985/86, not only as a result of the budgetary outturn, but also because of a high demand for credit by the private sector. Overall domestic credit rose by the equivalent of 23.8 percent of the broad money stock at the start of the fiscal year, compared to 13.3 percent in the previous year. About 42 percent of the expansion was on account of the Central Government, credit to public enterprises fell slightly, and credit to the private sector accounted for almost 58 percent of the total increase. In the first half of 1986 the external overall surplus also had an expansionary effect in addition to the continued credit expansion and broad money rose by 22 percent in annual terms.

The 1986/87 budget, as presented to Parliament, targeted a reduction in the overall budgetary deficit to 3.7 percent of GDP. This outturn was in line with the authorities' targets for the medium-term forward budget. Domestic financing was expected to be reduced to about 2.7 percent of GDP from 7.2 percent in the previous year. However, the budget did not incorporate the expenditures on the special imports for defense, nor did it foresee the continued need for grain purchases resulting from another bumper harvest, and the full amount of domestic interest and export compensation payments. The Government will also be issuing a rebate for excess taxes paid by oil companies in 1985/86, which will also have a significant impact on the budgetary outturn. Incorporating these items into the budget will lead to a substantial expansion of the overall budgetary deficit to about 6.2 percent of GDP. Although the special imports are largely foreign-financed, the other unbudgeted expenditures will raise domestic financing to 4.7 percent of GDP, unless offsetting measures are taken.

At the end of 1985, Kenya's external public debt totaled about SDR 3.0 billion. Approximately two thirds of the external debt was in the form of bilateral and multilateral loans on concessional terms, at well below market rates, with long maturities and grace periods and a significant grant element. Debt on commercial terms represents about 20 percent of the total. In 1985, debt service peaked at the equivalent of 32 percent of current account receipts. It is estimated to fall to about 30 percent in 1986 and remain at roughly that level through 1989, and then fall rapidly to some 22 percent on the basis of existing and anticipated borrowing. The trend of the debt service projections is now estimated to be somewhat less optimistic than on the occasion of the last Article IV consultation, as a result of a downward revision of the medium-term current account receipt earnings and the impact of the appreciation of non-dollar denominated debt.

III. Report on the Discussions

The discussions were held at a time when the balance of payments situation was improving on the basis of temporary factors. At the domestic level, the economy was recording an upturn, with the agricultural sector taking the lead, and resulting in surplus grain production for the second crop year in a row. The discussions, however, were clouded by the realization that the recently approved 1986/87 budget did not fully cover expected outlays, and by the insolvency of some financial institutions. In addition, decisions concerning the expected disposition of the maize surplus and their financial impact were still being discussed within the administration.

The authorities were also grappling with the necessity of strengthening policy implementation in view of a less buoyant medium-term balance of payments outlook and the uncertainties which exist with respect to the trend of petroleum and other commodity prices.

1. Resource allocation

The Kenyan representatives said that the Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth, which was approved by Parliament earlier this year, outlined in general terms economic and financial policies through the year 2000. The paper outlines a broad strategy to deal with Kenya's structural issues, with the aim of increasing growth and employment. It emphasizes increased productivity in agriculture, and in rural nonfarm activity, a dynamic informal sector, and the restructuring of industry to improve its export competitiveness. In this regard, incentives are to be utilized to encourage small- to medium-sized activities outside the main urban centers. Emphasis is to be given to the rural sector, promoting a better rural/urban balance. In order to promote private sector activity, further efforts are to be made to strengthen the incentives to private activity and to reduce the size of the overall budgetary deficit. The Kenyan representatives added that another important goal of the Sessional Paper is to provide for the basic needs of the population, especially in terms of food security, productive work, and improved housing conditions.

The Kenyan representatives said that an important strategy for improving the growth rate was to lower the capital output ratio in the public sector. Kenya has been investing a high percentage of GDP over a long period without benefiting from a commensurate high growth rate. Key to overcoming this problem will be the need to implement a budget rationalization program aimed at increasing the productivity of government investments, by concentrating on ongoing projects and by increasing capacity utilization and maintenance expenditure. There should also be a reduction in the size of the civil service, excluding for education given the commitments already made in introducing the 8-4-4 education system, in order to maintain the overall size unchanged. In addition, the investments will aim to assist the informal sector and agriculture.

The Kenyan representatives said that as an adjunct to budget rationalization, progress was also being made in restructuring the public enterprises. Improved monitoring, including a computerized external and internal debt reporting system, was in place, and the office of the Auditor-General for Parastatals had been created. In addition, the State Corporation Bill had recently been approved by Parliament and thus the institutional and legal framework for the reform was in place. The Task Force on Divestiture had completed its preliminary report on the liquidation and divestiture of public enterprises for Cabinet discussion. Nevertheless, some enterprises, such as the Kenya Transport Company, Upland Bacon Company, and the ginneries of Cotton Lint Board, are in the process of being divested.

The Kenyan representatives said that the investments of major public enterprises would be scrutinized in the next forward budget review. The Government had already informed enterprises that budgetary support, or loan guarantees, would not be given except on the basis of an approved public enterprise forward budget. The Kenyan representatives acknowledged that it would be more difficult to strengthen control over enterprises which did not require budgetary support, and that the Government's influence on the efficiency and on the allocation of resources of these enterprises would only be possible over time as the Auditor-General increased his experience, and improved the degree of monitoring.

The Kenyan representatives added that in agriculture, emphasis will be given to food security, and to the generation of jobs and exports to make the economy prosperous. The objective in food security will involve doubling productivity by the end of the century, because the land area presently under cultivation cannot easily be expanded. In addition, a further expansion of coffee and tea production is expected. The Government will promote the wider distribution and use of fertilizers including liberal import policies.

The Kenyan representatives said that the Government's strategy will continue to emphasize private sector initiative. Since 1980, considerable progress has been made in realigning prices to their proper levels, especially producer prices. These actions have complemented a relaxation of price and other controls. In this regard, the Kenyan representatives added, the Government will be streamlining and centralizing the procedures for approving new foreign investments. Foreign investors will be permitted greater access to local credit markets. The Kenyan representatives stressed that this new strategy will rely less on the use of government control and intervention and more on the competitive elements in the economy. Consequently, the maintenance of appropriate prices would be important, so that domestic prices reflect real scarcities and provide adequate incentives. Continued efforts would be made to keep a realistic exchange rate, to retain producer prices that provide adequate production incentives, to introduce a moderate and more uniform tariff, and to continue with wage guidelines that encourage employment creation.

The Kenyan representatives explained that the Sessional Paper targeted average real growth at 5.6 percent per year through the year 2000. Agriculture and the informal sector are designated as the leading sectors, and it is expected that they will create about 80 percent of the necessary employment.

The Kenyan representatives said that the Sessional Paper strategy would help strengthen growth in the agricultural sector, which would need to expand, on average, by about 5 percent per year, in order for the target GDP growth to be met. Given the potential which existed for expanding food crops, introducing new industrial raw materials, and increasing export output, the target appeared feasible, if normal weather conditions prevailed. They added that, for a number of years, the Government had reviewed producer prices on a yearly basis. The producer price of maize had been increased by 7 percent to K Sh 188 per 90 kilogram bag, while that of wheat had been increased by 8 percent to K Sh 286 per 90 kilogram bag for the 1986 crop year. Increases were also put into effect with respect to rice, sugar, and milk. The incentives being generated through the producer prices, in conjunction with excellent weather conditions in 1985 and 1986, were leading to temporary surpluses largely resulting from increased yields. The surpluses were fortuitous, as they permitted the accumulation of a security grain stock. Given the population growth rate, and more normal yields, it was likely that production in the medium term would barely be able to cover domestic demand in normal years. Consequently, producer prices were being pitched at levels which would continue to provide adequate incentives in the medium term, despite the temporary excess production being faced. In their view, the present problem was how to minimize the financial costs of the surplus production while the security stock was being built up. They considered these costs were temporary, because in later years, as the stocks are drawn down, repayments to the budget will result.

In facing the current problem, the Government was of the view that it was necessary to support the present producer prices by allowing the National Cereal and Produce Board (NCPB) to purchase all of the production offered. In 1985/86 the Board accumulated a stock of 12.9 million bags. A further increase is expected in 1986/87, and the Government estimates that transfers from the budget of about K Sh 1,000 million could be incurred. The Kenyan representatives recognized that the stock built-up in 1985/86 was clearly in excess of a security stock. Consequently, the Government was studying options that would minimize further accumulation. In this regard, the NCPB would be authorized to undertake additional exports of white maize. Because international prices are now very low, to a degree reflecting export subsidies in some countries, these exports would be affected at a loss. Some of the neighboring countries, which would have been natural markets for Kenya's excess production, were also enjoying bumper harvests. Millers will also be encouraged to build up their own stocks. The Kenyan representatives said that all of the financial support for the Board was being reflected through the budget, and that the Government would be looking for budgetary savings to offset some of these transfers. In order to maintain the incentives at an adequate level, the NCPB was attempting to make prompt payment to farmers.

The Kenyan representatives observed that tourism was continuing to expand at a satisfactory level. After an expansion of 24 percent in 1984, tourist arrivals had increased by a further 17 percent in 1985. Tourism earnings were expected to reach about SDR 261 million, exceeded only by coffee as a foreign exchange earner. The Kenyan representatives expressed optimism that, under the proper conditions, the number of tourist arrivals could be increased significantly, particularly with the maintenance of Kenya's relative cost attractiveness. The improvement in the European economies, which provide the largest number of tourists, was also seen as a beneficial element.

The Kenyan representatives said that for a number of years, the Government had been following strict wage guidelines. The guidelines limited annual wage increases to a maximum of 75 percent of the ongoing inflation rate. There has been a steady increase in labor productivity in recent years, while the wage component in gross output has declined.

2. Financial policies

The Kenyan representatives observed that in 1984/85 the rise in the overall budget deficit had not been allowed to reflect the full impact of the drought in keeping with the Government's commitment to reduce the underlying deficit. In light of the strong underlying adjustment efforts, the Government had programmed the forward budget (a three-year rolling budget) in 1985/86 to reduce the overall deficit further so that by 1989/90 it would have fallen to about 3 percent of GDP including a general wage award assumed in 1985/86. There had been no general wage increase since 1980.

The Kenyan representatives said that the Government had been unable to meet the targeted reductions in the overall deficit for 1985/86, largely because of the need to support the NCPB in its purchase of maize. Outlays for this purpose totaled K Sh 1.7 billion, or about 1.7 percent of GDP. In addition, the debt servicing on domestic financing had been underestimated and there had been shortfalls in grant receipts. Consequently, the overall deficit is now estimated at the equivalent of 6.3 percent of GDP. However, domestic financing rose more than proportionately from 4.0 percent of GDP to 7.2 percent. The Kenyan representatives explained that commercial foreign borrowing equivalent to about 0.6 percent of GDP had been budgeted for 1985/86. Such borrowing had been deemed necessary both for budgetary and balance of payments financing. In the event, however, the balance of payments prospects improved substantially, and there was no longer a need on balance of payments grounds to undertake this borrowing. Consequently, the Government substituted domestic financing for the intended foreign borrowing. As a result, a net amortization of 0.9 percent of GDP was made.

The Kenyan representatives pointed out that the upturn in economic activity since the end of the drought was beginning to be reflected in the revenue performance. For the first time in the last five years, the ratio of revenue to GDP had risen. Although most revenue categories recorded improvements, customs duty collections, which account for 20 percent of total revenue in recent years, had shown a particularly large expansion. Income taxes were also very buoyant. A further increase in the ratio was expected in 1986/87, arising from increases in the sales tax on petroleum products to offset the declining prices in the international market, the continued buoyancy of the economy, and administrative improvements. Consequently, at 25 percent of GDP, the estimated revenue would be almost equal to the previous peak reached in 1980/81. The Kenyan representatives observed that to improve the buoyancy and efficiency of tax collections, a study of the tax system was being undertaken together with a foreign donor. It was hoped that some of the conclusions could be incorporated into the 1987/88 budget.

The Kenyan representatives observed that, since the 1986/87 budget was approved, the Government has faced additional expenditure commitments and an unexpected rebate to the oil companies resulting from excess payments in 1985/86, given that their actual income was less than estimated when the changes in the sales tax were made. Not only is the NCPB requiring additional financial support, but underbudgeting for domestic interest payments and the export compensation scheme (which takes the place of a rebate for the import duties paid on imports for export production) had occurred, while the purchase of certain aircraft had been decided only recently and not included in the budget. This transaction is largely being financed by foreign credits. In addition certain grants expected in 1986/87 were actually received in 1985/86. The Kenyan representatives explained that these factors were equal to about 2.5 percent of GDP. In line with its adjustment objectives, the 1986/87 budget had been framed around an overall deficit of 3.7 percent of GDP, but the additional outlays were increasing the deficit to 6.2 percent of GDP. The Kenyan representatives said that a review of the budget would take place in order to minimize the impact of these variables on the budget, with the aim of reducing the overall deficit to about 4 percent of GDP.

The Kenyan representatives remarked that the upturn in economic activity was leading to a greater demand for domestic credit. This, together with the need to finance a larger level of imports, and profit remittances recently authorized, had led to a rapid growth of private sector credit. Thus, in 1985/86 private sector credit expanded by 20 percent. However, at the same time, credit to public enterprises fell slightly in line with the Government's intentions. Nevertheless, given also the large use of net bank credit by the Government, overall domestic credit grew by the equivalent of 22 percent of the broad money stock at the beginning of the year, a rate considerably faster than targeted earlier in the year.

The closure of some insolvent financial institutions, brought about a reduction of confidence in the system. Some five institutions had been seriously affected, but they account for only a small proportion of total deposits. The institutions initially faced with difficulties had engaged in questionable practices, including extending a substantial proportion of credit to the directors of the institutions. However, other institutions are being affected by the decline in confidence which led to the transfer of deposits from smaller, less liquid institutions to larger banks. Consequently, the distribution of liquidity in the banking system was altered substantially. The Kenyan representatives explained that it had become difficult, on the basis of currently used monetary instruments, to adequately tighten the liquidity of the financial system without endangering the solvency of some institutions. The monetary authorities were concerned at the rapid expansion of credit that had occurred, and stated they would be tightening credit policy in the near future through more selective instruments aimed at the highly liquid banks. Confidence in the financial system could only be restored by the stricter application of the banking law.

The Kenyan representatives pointed out that a high level committee, chaired by the Minister of Finance, had been formed to study the possible solutions to the problem of insolvent financial institutions and their impact on the economy. As part of the Government's commitment to protect the small depositors, it has already established a deposit insurance scheme. Beginning in September, withdrawals of up to K Sh 50,000 were authorized to be made by small depositors of a financial institution which closed its doors at the end of 1984. Additional amounts are likely to be released in the near future. The Kenyan representatives observed that the return of confidence could be promoted by mergers or other means that would improve the management and liquidity of weak institutions.

The Kenyan representatives pointed out that many of the difficulties being faced by the financial system had been predicted some years ago, and had led to the amendment of the Banking Act in December 1985. Most of the measures approved at that time were directed at improving the liquidity of institutions, strengthening their capital base, and minimizing questionable practices. The measures were being implemented in stages, with the result that the crisis had overtaken this implementation.

So far the Central Bank had followed a cautious policy by minimizing the direct support granted to the ailing institutions. However, the Government was in the process of reviewing monetary policy regulations and instruments with a view to strengthening the hand of the Central Bank.

The Kenyan representatives remarked that, given the reduction of inflationary pressures which had taken place in 1986, interest rates had become positive in real terms. There was considerable pressure from the financial institutions to reduce the level of interest rates. However, given the large demand for credit, the Government would not be making any adjustments in the near future. However, the Government would be reviewing the situation before the start of the new fiscal year when the financial situation was expected to be under control. The maintenance of interest rates which are too high in real terms would not be conducive to promoting private sector activity.

3. External policies and developments

The Kenyan representatives said that the improvements in the terms of trade which took place in early 1986 had substantially altered the short-term outlook in the balance of payments. The improvement was recognized to be temporary and, therefore, policies were needed to capture the balance of payments improvement in the form of increased net foreign assets. At the same time, the Government's adjustment effort needed to be strengthened in order to improve the medium-term balance of payments outlook. The Kenyan representatives acknowledged that the Government's policy to diversify exports had been less than successful in the recent past. They ascribed the difficulties mainly to institutional and administrative factors, especially difficulties in opening new markets for Kenya's minor exports. In their view, the existing exchange rate policy had improved the competitiveness of Kenyan exports, but the difficulties emanated from the depressed state of traditional markets such as in neighboring countries, lack of transportation or other institutional facilities as in horticulture and quotas or other similar limitations in some importing countries. They stressed that the Government would continue to follow an active exchange rate policy, but at the same time, it needed to concentrate also on removing infrastructure and institutional bottlenecks.

The inability of Kenya to improve its export earnings has also made it increasingly important to limit the amount of new debt incurred. Current account earnings are now foreseen to rise less than in earlier estimates and this was reflected in a small increase in the debt service ratios from the previous estimates.

The Kenyan representatives stressed that the Government was to maintain its policy of minimizing commercial borrowing in order to ensure a decline in the debt service ratio over the medium term.

The Kenyan representatives expressed concern that the net inflow of official grants and long-term capital continually fell below expectations. They feared that the situation could get worse unless donors bolster their support of Kenya's development effort. This could be facilitated if donor governments subscribe to a shift of already committed loans for nonpriority programs to programs of greater priority. Unless donors were in agreement with this change, it would be difficult for Kenya to draw down on already committed resources. The existence of undisbursed balances tended to discourage donors from increasing their lending programs. Without continuation of strong donor support, Kenya was going to be forced to aim for a smaller current account deficit than had been originally foreseen over the medium term. Such an adjustment would have a negative impact on the rate of growth as the adjustment would mainly be on imports, for a further increase in exports from the levels presently foreseen would take time. In 1986 and 1987, excluding the loans to finance special imports, the ratio of official, net capital inflows plus official grants will average about 1.6 percent of GDP. The ratio was expected to climb to about 2.0 percent by 1988, in contrast to over 4 percent on average during 1981-84.

4. Medium-term outlook

The medium-term outlook for Kenya's balance of payments (Tables 5 and 6) is now perceived to be different from that presented to the Executive Board in EBS/85/217 (September 13, 1985). It has been altered largely because of the substantial improvement in the terms of trade now foreseen for 1986-87 and a less buoyant outlook for the subsequent years, largely arising from a lower than previously expected growth in current account receipts, and a lower level of foreign assistance. Thus, it is now foreseen that for 1986-87, large balance of payments surpluses will emerge, allowing Kenya to accumulate a substantial amount of gross foreign reserves, estimated to rise to the equivalent of 4.3 months of imports by the end of 1987. Although it is expected that the overall balance of payments deficit will range between SDR 29 million and SDR 44 million in the period 1988-91, a larger unsecured financing gap will emerge as a result of large scheduled net repayments to the Fund and the need to accumulate additional foreign assets in these years in order to maintain adequate reserves; the projections are based on a minimum reserve level equivalent to three months of imports. However, it had previously been projected that current account earnings would rise by an average of 7 percent per year and that Kenya would be able to attract, as a minimum, official net capital and grants of about 3 percent of GDP. On the basis of most recent developments, the rate of growth of current account earnings is now estimated at 5 percent per year while foreign assistance (official net capital inflows plus official grants) is projected at about 2.0 percent of GDP. The staff estimate of capital inflows may be considered conservative, and it is probable that amounts greater than those anticipated will be secured through the normal annual or biannual lending programs from main donors. A combination of increased assistance, the strengthening of the export performance and a lower reserve target would reduce the projected financing gap and enable Kenya to continue to make its repurchases to the Fund on schedule.

The most recent projections, however, are sensitive to the assumptions made with regard to the trend of coffee prices, oil prices, and the level of net official capital inflows and grants. A change in coffee prices of plus or minus 5 percent from the levels presently estimated would affect the current account balance by between SDR 19 million and SDR 29 million a year in the period 1988-91, and affect the debt service ratio by about 0.6 percent of GDP on average (Table 7). Each dollar change per barrel in oil prices from the levels presently assumed would affect the current account by about SDR 15 million and SDR 23 million in the period 1988-91. Similarly, if net official capital inflows plus grants were to be maintained at a level of

Table 5. Kenya: Medium-Term Balance of Payments Projections, 1984-91

	1984	1985	1986 Est.	1987	1988	1989	1990	1991
				Projections				
				(In millions of SDRs)				
Current account	-199	-222	-152	-128	-296	-213	-206	-229
Exports, f.o.b.	1,008	928	1,030	1,019	979	1,059	1,149	1,248
Coffee	276	277	445	406	312	335	359	384
Tea	257	230	175	185	199	215	231	249
Oil products	137	96	53	54	57	61	66	71
Other	340	326	358	374	410	449	494	544
Imports, c.i.f. 1/	-1,514	-1,481	-1,484	-1,465	-1,632	-1,651	-1,778	-1,936
Government	-169	-136	-148	-177	-228	-119	-109	-117
Food	-83	-64	-7	-7	-8	-8	-9	-9
Other	-86	-72	-141	-170	-220	-111	-100	-107
Oil	-450	-452	-251	-258	-278	-299	-322	-347
Other	-895	-893	-1,085	-1,029	-1,126	-1,232	-1,347	-1,472
Trade balance	-506	-553	-454	-446	-653	-591	-629	-688
Services (net)	163	185	168	177	209	224	259	287
Private transfers	4	8	8	9	9	10	11	11
Official transfers	140	139	126	132	138	145	153	160
Capital account	243	129	296	268	252	176	177	188
Long-term (net)	199	97	276	248	232	156	157	168
Official 2/	81	-24	153	122	104	25	24	32
Private	118	121	123	126	128	131	133	136
Short-term (net)	44 3/	32 3/	20	20	20	20	20	20
Overall balance	45	-92	144	139	-44	-37	-29	-41
Financing	-45	92	-144	-139	44	37	29	41
Gross reserves	-37	36	-54	-55	81	-4	-27	-45
IMF credit (net)	-11	55	-90	-84	-67	-98	-76	-19
Other assets (net)	3	1	--	--	--	--	--	--
To be secured	--	--	--	--	30	139	132	105
Memorandum items:								
Gross reserves (end of period)	416	380	434	489	408	412	439	484
Gross reserves (in months of imports) 4/	3.3	3.1	3.5	4.0	3.0	3.0	3.0	3.0
				(In percent of GDP)				
Current account deficit								
Including official grants 5/	3.5	3.9	2.6	2.0	4.2	2.7	2.4	2.4
Excluding official grants 5/	5.8	6.3	4.8	4.1	6.2	4.6	4.2	4.1
Official net capital inflow plus official grants 6/	3.8	2.0	4.9	4.0	3.4	2.2	2.0	2.0

Sources: Data provided by the Kenyan authorities; and staff estimates.
Note: Components may not add up to totals because of rounding.

1/ Includes special imports of SDR 187 million, SDR 89 million, SDR 133 million, and SDR 18 million, respectively, in 1986, 1987, 1988, and 1989, comprising military and civilian aircraft, naval boats and radars, and imports related to the Turkwell hydro-electricity project.

2/ Includes loans to finance special imports (described in footnote 1) and an IDA loan totaling SDR 191 million, SDR 145 million, SDR 133 million, and SDR 36 million, respectively, in 1986, 1987, 1988, and 1989. Excluding these special inflows, long-term official capital inflows are assumed to increase by at least 5 percent per annum during 1987-91 based on the average 1985-86 flows. The projections also assume that official net capital inflows plus official grants will not fall below 2 percent of GDP.

3/ Includes errors and omissions and valuation adjustments.

4/ Excluding the special imports described in footnote 1, reserves would be the equivalent of 4, 4.3, and 3.3 months of 1986, 1987, and 1988 imports, respectively. The medium-term projections are predicated on the maintenance of a minimum reserve level equivalent to 3 months' imports.

5/ Excluding the special imports described in footnote 1, the current account (including official grants) in relation to GDP would be in surplus of 0.6 percent in 1986, and would be in deficit of 0.6 percent in 1987, 2.3 percent in 1988, and 2.5 percent in 1989. Excluding official grants the corresponding amounts would be current account deficits of 1.6 percent, 2.7 percent, and 4.3 percent of GDP in 1986, 1987, and 1988, respectively.

6/ Excluding the loans to finance special imports indicated in footnote 2, the ratios would be 1.5 percent and 1.7 percent in 1986 and 1987, respectively, and 1.5 percent and 1.7 percent in 1988 and 1989, respectively.

Table 6. Kenya: External Public Debt Operations, 1984-91

	1984	1985	1986	1987	1988	1989	1990	1991
					(In millions of SDRs)			
A. External debt	2,963	2,973	3,036	3,074	3,141	3,207	3,287	3,405
Non-IMF 1/2/	2,575	2,530	2,683	2,805	2,909	2,934	2,958	2,990
Disbursed 3/	(2,575)	(2,530)	(2,299)	(2,059)	(1,800)	(1,548)	(1,318)	(1,061)
Projected	(--)	(--)	(384)	(746)	(1,109)	(1,386)	(1,640)	(1,928)
IMF credit	388	443	353	269	202	104	28	9
Financing gap	--	--	--	--	30	169	301	406
B. Debt service payments (C + D)	435	489	490	498	499	532	490	462
C. Principal payments 4/	258	316	321	324	326	351	306	275
Non-IMF 2/	200	248	231	240	259	253	230	256
IMF	58	68	90	84	67	98	76	19
D. Interest/charges	177	173	169	174	174	181	185	187
Non-IMF 2/	134	138	133	146	150	157	158	157
IMF	43	35	36	28	23	16	8	2
Financing gap	--	--	--	--	1	8	19	28
					(In percent of current account receipts) 5/			
Memorandum items:								
Total debt service	27.0	32.2	30.3	30.3	30.4	30.1	25.6	22.3
Of which: interest	(11.0)	(11.4)	(10.5)	(10.6)	(10.6)	(10.2)	(9.6)	(9.0)
IMF	(6.3)	(6.9)	(7.8)	(6.8)	(5.5)	(6.4)	(4.4)	(1.0)
					(In percent of GDP)			
Total external public debt 6/	51.5	52.3	53.0	48.4	44.6	41.1	38.0	35.5
IMF credit 6/	6.8	7.8	6.2	4.2	2.9	1.3	0.3	0.1

Sources: Data provided by the Kenyan authorities; and staff estimates.
Note: Components may not add up to totals due to rounding.

1/ Includes nonguaranteed debt of public sector in addition to guaranteed and direct government debt.
2/ Includes IMF Trust Fund.
3/ As at end-1985.
4/ Payments on medium- and long-term debt.
5/ Excludes official transfers.
6/ Average of beginning and end of period stock of debt.

Table 7. Kenya: Medium-Term Balance of Payments Projections--Sensitivity Analysis 1986-91 1/

(Amounts in millions of SDRs; ratios in percentage points)

	1986	1987	1988	1989	1990	1991
A. (1) Coffee price + 5% of 1986 base						
Change in:						
Current account balance	+24	+23	+19	+22	+26	+29
Financing gap	--	--	Elim.	-59	-26	-30
Debt service ratio	-0.4	-0.4	-0.4	-0.6	-0.6	-0.7
Medium- and long-term public debt/GDP ratio	--	--	-0.4	-1.2	-1.4	-1.5
(2) Coffee price -5% of 1986 base						
Change in:						
Current account balance	-23	-23	-19	-22	-26	-29
Financing gap	--	--	+64	+23	+26	+29
Debt service ratio	+0.4	+0.4	+0.4	+0.6	+0.7	+0.8
Medium- and long-term public debt/GDP ratio	--	--	+0.9	+1.1	+1.3	+1.5
B. (1) Oil prices 2/ US$1/barrel above 1986 base						
Change in:						
Current account balance	-12	-14	-15	-17	-21	-23
Financing gap	--	--	+43	+18	+25	+18
Debt service ratio	-0.1	--	--	+0.1	+0.3	+0.4
Medium- and long-term public debt/GDP ratio	--	--	+0.6	+0.8	+1.0	+1.1
(2) Oil prices 2/ US$20/barrel in 1986 and maintained in real terms thereafter						
Change in:						
Current account balance	--	--	-18	-21	-25	-28
Financing gap	--	--	+23	+22	+30	+23
Debt service ratio	--	--	--	--	+0.2	+0.3
Medium- and long-term public debt/GDP ratio	--	--	+0.3	+0.6	+0.8	+1.0
C. Net official capital inflows (excl. special inflows) plus official grants maintained at least at 2.5% of GDP during 1986-91						
Change in:						
Overall balance	+58	+51	+67	+58	+39	+48
Financing gap	--	--	Elim.	-115	-19	-34
Debt service ratio	--	+0.1	+0.2	+0.1	-0.1	-0.2
Medium- and long-term public debt/GDP ratio	+0.9	+1.6	+2.0	+1.1	+1.2	+1.2

Source: Staff estimates.

1/ Based on changes in assumptions and parameters from the central scenario in Table 5.
2/ For both exports and imports of oil and oil products.

structural bottlenecks in the economy, especially in the export sector, where over the last few years diversification has not materialized. The difficulties in expanding export volume has been an important constraint on the economy, and, unless this constraint is removed, the growth prospects would not improve significantly.

Increased care must be taken to limit Kenya's external borrowing and to maintain a strong reserve position to cover possible contingencies. On the presently projected increase in current account earnings, the debt service ratio will decline only after several years.

The Sessional Paper approved by Parliament in 1986 provides a proper medium-term framework on which to launch a renewed development effort. Major donors voiced their support for such a program at the 1986 Consultative Group meeting. However, there is a need to develop specific policies and to establish a timeframe for their implementation.

Continued emphasis in raising agricultural productivity, maintaining adequate producer incentives, while allowing for greater market influence should be encouraged. The restructuring of the industrial sector to make it more outward looking should be accelerated. Increased export earnings are likely to be facilitated by increasing competition in the industrial sector. In this regard, the staff finds it unfortunate that further progress in reducing the number of items subject to import control was not made in 1986, and encourages the authorities to redouble their effort to continue with the liberalization of the import regime.

The Government has rightly embarked on a program of budget rationalization, which aims at limiting the size of the civil service, increasing maintenance outlays, and emphasizing ongoing projects, together with a more thorough review of new projects to increase productivity. The implementation of this program should be accelerated. Progress in this area will also require a greater effort at public enterprise reform. Improvements in the monitoring and in the financial control of public enterprises have already been put into place, but there have been lags in restructuring and divestiture.

The modifications in the Banking Act recently enacted to strengthen the liquidity and capital base of institutions, unfortunately, were put in effect at a time when the weakening of the financial position of some institutions was already emerging, and were not in place soon enough to avert the difficulties now being faced in Kenya's financial system. The current situation underlines the need to implement these reforms more rapidly. The encouragement of the capital market should be promoted, as this would help fund new industrial investments and facilitate divestiture of public enterprises.

The authorities have maintained a flexible exchange rate policy, and, in 1986, have improved the timeliness of the adjustments. The staff would encourage the authorities to continue to maintain this policy and to keep the exchange rate under review in light of the steps undertaken to further liberalize imports in the future and the need to strengthen export performance over the medium term.

In recent years Kenya has made progress in liberalizing its exchange system. Profit remittances are being made freely, advance import deposits were removed, and the Central Bank now automatically provides foreign exchange for import licenses issued by the Ministry of Commerce, which are now being issued in a more liberal manner. The foreign exchange budget on the basis of which licenses are issued is subject to Fund approval under Article VIII. Kenya also maintains a restriction on the availability of foreign exchange for rental incomes. The staff notes the relaxation of the exchange system implemented in recent years and encourages the authorities to make further progress in this direction. In the meantime, the staff recommends that the Executive Board grant temporary approval for the retention of these exchange restrictions.

The decreasing level of foreign assistance being received by Kenya is of major concern. It is clear that without continued support from major donors the progress being made by the Government in the implementation of its policies could be compromised.

It is expected that the next consultation discussions will take place on the standard twelve month cycle.

V. Proposed Decision

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

1. The Fund takes this decision relating to Kenya's exchange measures subject to Article VIII, Sections 2(a), and in concluding the 1986 Article XIV consultation with Kenya, in light of the 1986 Article IV consultation with Kenya, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Kenya maintains restrictions on payments and transfers for current international transactions subject to approval under Article VIII, Sections 2(a), arising from limitations on foreign exchange for imports and rental income remittances. In the circumstances of Kenya, the Fund grants approval for their retention until December 31, 1987, or the conclusion of the next Article IV consultation with Kenya, whichever is earlier.

KENYA - Basic Data

Area, population, and GDP per capita

Area	582,600 square kilometers
Population: Total (1985)	20.2 million
Growth rate	3.9 percent
GDP per capita (1985)	SDR 281

GDP (at 1982 market prices)	1981	1982	1983	1984	1985	1986 Proj.
Total (in billions of Kenya shillings)	67.0	68.2	70.0	71.2	73.3	76.9
Agriculture (percent of total)	27	28	29	27	27	27
Manufacturing (percent of total)	11	11	11	11	12	12
Government (percent of total)	13	13	13	13	14	13
Annual real rate of growth (percent)	2.5	1.8	2.6	1.7	3.0	4.9
Investment as percent of GDP (at current market prices)	28	22	21	22	19	24
Prices (percent change)						
GDP deflator	12	11	9	9	8	9
Cost of living index (annual average)	12	21	12	10	13	4
Cost of living index (end of period)	20	14	10	11	11	3

	1981/82	1982/83	1983/84	1984/85	1985/86 Prelim. actual	1986/87 Adjusted budget
Central government finance 1/		(In billions of Kenya shillings)				
Total revenue	15.6	16.6	18.4	20.3	24.3	28.2
Foreign grants	0.8	1.1	0.6	1.5	1.7	2.7
Total expenditure and net lending	20.7	20.3	21.9	25.7	32.2	38.1
Recurrent	14.9	16.0	17.1	19.8	23.5	27.5
Development and net lending	5.8	4.3	4.8	5.9	8.7	10.5
Adjustment to cash basis	0.1	--	--	--	-0.1	--
Overall deficit (-)	-4.2	-2.6	-3.0	-3.9	-6.4	-7.1

1/ Fiscal year July 1-June 30.

KENYA - Basic Data (continued)

Central government finance (continued)	1981/82	1982/83	1983/84	1984/85	1985/86 Prelim. actual	1986/87 Adjusted budget
	(In billions of Kenya shillings)					
Foreign financing (net)	1.0	1.0	-0.1	0.2	-0.9	1.7
Domestic financing (net)	3.1	1.6	3.0	3.6	7.3	5.4
Of which: from banking system and CSFC	(1.7)	(0.1)	(1.0)	(0.8)	(2.6)	(2.0)

Money and credit	1981	1982	1983	1984	1985	1986
	(Percent change)					
Domestic credit	25	29	--	11	12	15
Government	79	62	-18	11	10	19
Other	10	14	12	11	14	13
Money and quasi-money	13	14	7	13	10	23

Balance of payments	1981	1982	1983	1984	1985	1986 Est.
	(In millions of SDRs)					
Exports, f.o.b.	915	846	865	1,008	928	1,030
Imports, c.i.f.	-1,850	-1,559	-1,306	-1,514	-1,481	-1,484
Trade balance	-935	-713	-441	-506	-553	-454
Services and private transfers (net)	263	211	203	167	193	176
Official transfers (net)	66	70	113	140	139	126
Current account balance	-606	-432	-125	-199	-222	-152
Capital account (net)	401	282	214	243	129	296
Official	210	145	130	81	-24	153
Private	191	137	84	162	153	143
Of which: long-term	(137)	(107)	(82)	(118)	(121)	(123)
Allocation of SDRs	7	--	--	--	--	--
Overall surplus or deficit (-)	-198	-150	89	45	-92	144
Current account deficit as percent of GDP						
Including grants	10.7	7.6	2.3	3.5	3.9	2.6
Excluding grants	11.9	8.9	4.4	5.8	6.3	4.8
Gross official foreign reserves (end of period)	215	210	379	416	380	434
In weeks of imports	6	7	15	14	13	15

KENYA - Basic Data (concluded)

	1981	1982	1983	1984	1985	1986 Proj.
External public debt			(In millions of SDRs)			
Disbursed and outstanding (end of period)	2,244	2,536	2,756	2,963	2,973	3,036
Debt service as percent of exports of goods and nonfactor services						
Excluding the Fund	17	22	22	22	27	23
Including the Fund	18	25	28	28	34	31

Kenya - Relations with the Fund

(As of September 30, 1986)

I. Membership status:

(a) Date of membership	February 3, 1964
(b) Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota		SDR 142.0 million
(b) Total Fund holdings of Kenya's currency		SDR 523.38 million (368.58 percent of quota)
(c) Fund holdings of Kenya's currency subject to repurchase		SDR 393.58 million (277.17 percent of quota)
Of which:	credit tranche	SDR 65.86 million (46.38 percent of quota)
	SFF	SDR 50.83 million (35.80 percent of quota)
	EAR	SDR 208.81 million (147.05 percent of quota)
	CFFC	SDR 68.09 million (47.94 percent of quota)
(d) Reserve tranche		SDR 12.22 million (8.60 percent of quota)

III. Current or previous stand-by arrangements and special facilities

(a) Current stand-by arrangement: None

(b) Previous arrangements:

One extended arrangement approved in July 1975, and 6 stand-by arrangements approved respectively, in November 1978, August 1979, October 1980, January 1982, March 1983, and February 1985. Amounts range from SDR 17.25 million to SDR 241.50 million. Cumulative purchases made under these arrangements amounted to SDR 458.4 million.

Kenya - Relations with the Fund (continued)

(c) Kenya made a purchase of SDR 37.9 million (27 percent of quota under the compensatory financing facilities for export shortfalls and cereal imports.

IV. SDR Department

(a) Net cumulative allocation - SDR 36.99 million
(b) Holdings: amount to SDR 2.22 million or 5.99 percent of net cumulative allocation.

V. Administered Accounts

(a) Trust Fund loans:

(i) Disbursed - SDR 46.91 million
(ii) Outstanding - SDR 24.39 million

(b) SFF Subsidy Account:

(i) Payments by Fund - SDR 11.49 million

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange system: Pegged to the SDR at K Sh 19.135213 = SDR 1 (since June 30, 1986), within margins of 2.25 percent of the rate.

Intervention currency and rate - U.S. dollar
K Sh 16.0888 = US$1 at end-August 1986

VIII. Last Article IV Consultation

Article IV consultation, June-August 1985 (EBS/85/217) discussed by the Executive Board on October 21, 1985 (EBM/85/154). The following decisions were adopted:

1985 Consultation

1. The Fund takes this decision relating to Kenya's exchange measures subject to Article VIII, Section 2, and in concluding the 1985 Article XIV consultation with Kenya, in the light of the 1985 Article IV consultation with Kenya conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Kenya maintains restrictions on payments and transfers for current international transactions subject to approval under Article VIII, Section 2, arising from limitations on foreign exchange for certain

Kenya - Relations with the Fund (concluded)

imports and rental income remittances. In the circumstances of Kenya, the Fund grants approval for their retention until October 31, 1986, or the next Article IV consultation with Kenya, whichever is the earlier.

Review Under Stand-By Arrangement

1. Kenya has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Kenya (EBS/84/261, Supplement 2, 1/10/85) and paragraph 19 of the letter of the Minister of Finance and the Governor of the Central Bank of Kenya dated November 21, 1984 annexed thereto, in order to review policies and establish performance criteria for the remaining period of the arrangement.

2. The letter dated September 6, 1985 from the Minister of Finance and the Governor of the Central Bank of Kenya shall be annexed to the stand-by arrangement for Kenya and the letter of November 21, 1984 shall read as supplemented by the letter dated September 6, 1985.

3. Accordingly, and pursuant to Decision No. 7908-(85/26) of February 20, 1985 on overdue payments to the Fund, the stand-by arrangement for Kenya shall be replaced by the revised arrangement set forth in Attachment IV of EBS/85/217.

Kenya is on the standard 12-month cycle for Article IV consultations.

IX. Technical Assistance

CBD: One expert assigned to Central Bank of Kenya. Technical assistance missions on Kenya Financial System (March and May-June 1984).

FAD: Technical assistance in fiscal field (1981).

Relations with the World Bank Group

The World Bank has a large ongoing program in Kenya. As of August 31, 1986 it had committed almost US$1.9 billion, of which US$1.3 billion had been fully disbursed.

1. Agriculture

As the dominant sector in the Kenyan economy, agriculture has received about 18 percent of all World Bank group lending and is expected to obtain an even larger share of proposed lending by the Bank (see Table 1). The main ongoing projects are in the areas of country-wide extension services, coffee rehabilitation, forestry, and fisheries. In support of drought recovery efforts in early 1985, US$20 million was used to finance inputs for agriculture. Funds were also reallocated to inputs for expansion of cotton production in concert with the divestiture of the Cotton Lint and Seed Marketing Board. Implementation of Bank-financed projects in the agricultural sector was generally weak in the early 1980s, reflecting overly complex project design, weaknesses in management of government activities of the sector, and budgetary problems. Lending to agriculture abated while the Bank reformulated its lending strategy in the sector to address the above issues, by addressing sector management through technical assistance; moving toward sector lending to address sector constraints; supporting pilot projects to test new methodologies for rural development; and shifting emphasis from area-specific projects to national agricultural programs.

In June 1986, the Bank Board approved a loan/credit to support the Government's agricultural sector adjustment program. Program components include (i) measures to increase the availability of agricultural inputs (especially fertilizer); (ii) movement toward price flexibility and deregulation; (iii) rationalization of government expenditure in the agricultural sector; (iv) the divesting of some agricultural parastatals and the restructuring of others, in the context of better defined policies on parastatals; and (v) improvements in agricultural credit programs.

Future project lending in the agricultural sector will focus on a national research program, animal health rehabilitation, an expansion of extension services, forestry, credit to rural private enterprises, and further sectoral adjustment.

2. Energy

The Bank's efforts in this sector have concentrated on lessening Kenya's dependence on imported oil through hydroelectric development, geothermal development, and petroleum exploration promotion. Future lending will depend on findings of ongoing studies of least-cost

Table I. Kenya: Financial Relations with the World Bank Group

(In millions of U.S. dollars; as of August 31, 1986)

Date of Membership: February 3, 1964
Capital subscription: SDR 131.5 million

	World Bank Loans			IDA and Third Window Loans			Total	
	Net committed	Disbursed	Disbursement ratio	Net committed	Disbursed	Disbursement ratio	Committed	Disbursed
Agriculture, livestock, and rural development	146.8	113.1	77.0	258.6	120.2	46.5	405.4	233.3
Population	--	-	--	35.0	21.2	60.6	35.0	21.2
Education	9.9	9.9	100.0	111.3	43.2	38.8	121.2	53.1
Tourism	16.8	16.8	100.0	--	--	--	16.8	16.8
Energy and petroleum exploration	251.4	188.9	75.1	24.5	1.0	4.1	275.9	189.9
Industries and development finance institutions	63.2	52.6	83.2	7.7	5.0	64.9	70.9	57.6
Harbours	19.1	--	100.0	--	--	--	19.1	19.1
Urban and rural water supply	115.1	--	75.5	61.0	44.1	72.3	176.1	131.0
Transport	302.1	238.8	79.1	107.1	67.1	62.7	409.2	305.9
Telecommunications	113.5	62.8	55.3	--	--	--	113.5	62.8
Structural adjustment loans	90.9	90.9	100.0	125.0	125.0	100.0	215.9	215.9
Technical assistance	--	--	--	16.5	5.8	35.1	16.5	5.8
Total	1,128.8	879.8	77.9	746.7	432.6	57.9	1,875.5	1,312.4
Repayments	Bank:	152.29		IDA:	8.31	World Bank Group:		160.60
Debt outstanding	Bank:	976.57		IDA:	738.43	World Bank Group:		1,715.00
Total undisbursed	Bank:	245.82		IDA:	331.33	World Bank Group:		577.15

IFC operations 1/

Promotion of tourism facilities, capital markets, industrial development (pulp and paper, textiles, cement), and development fianancing. Total net commitments on loans and equity held by IFC amount to US$56.9 million, of which US$45.8 million have been disbursed.

Source: World Bank.

1/ As of September 30, 1986.

Kenya - Relations with the World Bank Group (concluded)

power expansion, petroleum supply and distribution, and woodfuel replenishment and utilization. The sector has received about 14 percent of the World Bank's total past lending.

3. Industry

To date, Kenya's industry has obtained only 4 percent of total World Bank lending, through development finance intermediaries. An industrial sector mission is scheduled for the last quarter of 1986. A loan/credit to support trade and industrial policy reform is planned for fiscal year 1988.

4. Transport

In the past, this sector has received close to one fourth of the Bank's total lending. Highway projects and the promotion of railways account for most of the lending.

5. Adjustment lending

The World Bank has negotiated and fully disbursed two structural adjustment loans (SAL) to Kenya. The first, negotiated in March 1980, was for US$70 million and was fully disbursed by September 1980. The second, negotiated in July 1982 for SDR 130 million, was disbursed in two tranches: in September 1982 and January 1984. The SAL programs have been implemented under adverse external circumstances which negatively affected Kenya's performance. The protracted balance of payments crises of 1981 and 1982, as well as the coup attempt in August 1982, forced adjustments in the Government's policies and led to delays and reversals in policy initiatives included in the SAL programs. The speed of implementation was also affected by a shortage of technical personnel and the preoccupation of the authorities with short-term stabilization efforts. In addition, problems were encountered with the timing of required studies and the role of some technical assistance personnel.

It has been agreed between the Bank and the Government that, for the near future, Bank financial support for the Government's structural adjustment efforts will take the form of sector adjustment loans rather than the comprehensive SAL. As noted above, an agricultural sector adjustment loan was approved by the Bank's Board in June 1986, and an industrial sector adjustment loan is planned for fiscal year 1988.

Kenya--Statistical Issues

1. Outstanding Issues

a. Government Finance

Data in the 1986 GFS Yearbook cover the period 1975-84 for budgetary central government operations and 1975-83 for local governments.

b. Monetary Accounts

Acting upon the recommendations of a Bureau of Statistics technical assistance mission in 1985, the Central Bank introduced in 1986 a new revised statistical return for commercial banks and financial institutions. The new compilation procedures have improved the accuracy of the monetary accounts.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Kenya in the November 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Kenya, which during the past year have been provided on a timely basis.

Status of IFS Data

		Latest Data in November 1986 IFS
Real Sector	- National Accounts	1985
	- Prices	July 1986
	- Production	AA 1984
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	June 1986
	- Deposit Money Banks	July 1986
	- Other Financial Institutions	June 1986
Interest Rates	- Discount Rate	August 1986
	- Bank Lending/ Deposit Rates	August 1986
	- Treasury Bill Rate	July 1986
External Sector	- Merchandise Trade:	
	Values	April 1986
	Prices (Coffee)	September 1986
	Unit Values	AA 1985

Kenya--Statistical Issues (concluded)

- Balance of Payments	1985
- International Reserves	September 1986
- Exchange Rates	September 1986