# KENYA ECONOMIC UPDATE

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# Policy Options to Advance the Big 4

*Unleashing Kenya's Private Sector to Drive Inclusive Growth and Accelerate Poverty Reduction*

WORLD BANK GROUP

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# ABBREVIATIONS

| | |
|---|---|
| AGOA | African Growth and Opportunity Act |
| AIDS | Acquired Immune Deficiency Syndrome |
| AU | African Union |
| AGRA | Alliance for a Green Revolution in Africa |
| COMESA | Common Market for Eastern and Southern Africa |
| CBK | Central Bank of Kenya |
| CBR | Central Bank Rate |
| CBN | Cost-of-Basic Needs |
| CPI | Consumer Price Index |
| EAC | East African Community |
| EPA | Economic Partnership Agreement |
| EU | European Union |
| EM | Emerging Markets |
| EGS | Early Generation Seed |
| EMDE | Emerging Markets and Developing Economies |
| FY | Fiscal Year |
| GHA | Ghana |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GoK | Government of Kenya |
| HDI | Human Development Index |
| H1, H2 | First, Second Half |
| ICT | Information Communication Technology |
| IPL | International Poverty Line |
| IFMIS | Integrated Financial Management Information System |
| KEN | Kenya |
| KPGA | Kenya Poverty and Gender Assessment |
| KEU | Kenya Economic Update |
| KIHBS | Kenya Integrated Household Budget Survey |
| KNBS | Kenya National Bureau of Statistics |
| LMIC | Lower Middle Income Countries |
| MFMod | Macroeconomic and Fiscal Model |
| MTP II | Medium Term Plan II |
| m-o-m | Month-on-month |
| NEER | Nominal Effective Exchange Rate |
| NPL | Non-Performing Loans |
| NSE | Nairobi Security Exchange |
| NHIF | National Health Insurance Fund |
| NT | National Treasury |
| PFM | Public Finance Management |
| P/E | Price Earning ratio |
| PPP | Purchasing power parity |
| PMI | Purchasing Managers' Index |
| PPP | Public Private Partnership |
| Q1, Q2, Q3, Q4 | Quarter One, Two, Three, Four |
| q-o-q | Quarter on quarter |
| R&D | Research and Development |
| RWA | Rwanda |
| REER | Real Effective Exchange Rate |
| SA | South Asia |
| SGR | Standard Gauge Railway |
| SME | Small and Medium Enterprises |
| SSA | Sub-Saharan Africa |
| SPS | Sanitary and Phyto Sanitary |
| TZA | Tanzania |
| T-Bill | Treasury Bill |
| USA | United States of America |
| UGA | Uganda |
| UNDP | United Nations Development Program |
| VAT | Value Added Tax |
| WBG | World Bank Group |
| y-o-y | Year on year |
| YTD | Year to date |

# FOREWORD

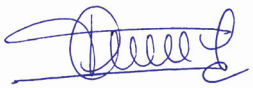
The 2010 Constitution of Kenya introduced a devolved system of government aimed at better service delivery. With that foundation laid and 5 years of implementation experience, the Government of Kenya has announced an ambitious development agenda for the next 5 years anchored on "the Big 4": deliver affordable housing, roll-out universal health coverage, increase the share of manufacturing in the economy and improve food security. At this critical juncture in Kenya's development journey, it is my pleasure to present the 17th Edition of the Kenya Economic Update. The report has three key messages.

First, after multiple headwinds dampened growth in 2017, the incipient rebound in economic activity in Kenya is gaining momentum. Supported by improved rains, the dissipation of political uncertainty which held back investment, and the ongoing broad-based recovery in the global economy, GDP growth is expected to recover to 5.5 percent in 2018 and steadily rise to 6.1 percent by 2020. Nonetheless, downside risk to this outlook stem from fiscal slippages that could endanger macroeconomic stability, a continuation of subdued credit growth to the private sector (especially for households and small enterprises), and negative spillovers from the global economy due to tighter financial market conditions and escalation of tensions in global trade.

Second, though ambitious, the Big 4 can be achieved. However, significant policy reforms will be needed. This report proposes macroeconomic and sectoral policy options that could help advance delivery on the Big 4 over the medium-term. Underpinning the proposed policy options is the recognition that success will require support from both the public and especially the private sector. Hence the need to provide appropriate incentive structures, through policy reforms, to allow resources to flow to the Big 4 areas.

Third, policies to achieve the Big 4 could help foster inclusive growth and accelerate the pace of poverty reduction. In the special focus section of the report, macroeconomic drivers of poverty reduction in Kenya are analyzed, including an assessment of current levels against international benchmarks. The rate of poverty reduction in Kenya outpaces many in the region, but is less responsive to growth and remains higher compared to other lower-middle income countries. Growth in the agriculture sector accounted for the largest share of poverty reduction, but also revealed progress is vulnerable to climatic shocks.

The World Bank remains committed to working with key Kenyan stakeholders to identify policy and structural issues that will enhance inclusive growth, keep Kenya on the path to upper middle-income status, and attain its Big 4 policy objectives. The Kenya Economic Update offers a forum for such policy discussions. We hope that you will join us in debating topical policy issues that can contribute to fostering growth and shared prosperity and poverty reduction in Kenya.



**Diarietou Gaye**
Country Director for Kenya
World Bank

# ACKNOWLEDGEMENTS

This seventeenth edition of the Kenya Economic Update was prepared by a team led by Allen Dennis and Christine Awiti. Part One – The State of Kenya's Economy was written by Christine Awiti, Allen Dennis, Celina Mutie, Sarah Sanya, Angélique Umutesi, and Peter Chacha Wankuru. Part Two – Assessing Poverty Reduction In Kenya Against International Benchmark was written by Utz Pape under guidance of Johan Mistiaen, with contributions from Marina Tolchinsky. Part Three – Policies to advance the Big 4 was written by Allen Dennis, with contributions from Ladisy Chengula (Agriculture), Mehnaz Safavian (Housing), and Gandham N.V. Ramana (Health).

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The team also received overall guidance from Abebe Adugna (Practice Manager, Macroeconomic Trade and Investment), Johan Mistiaen (Program Leader for Kenya, Rwanda, Uganda, and Eritrea), and Diarietou Gaye (Country Director for Kenya, Rwanda, Uganda, and Eritrea).

Partnership with key Kenyan policy makers was instrumental in the production of this report. The preliminary findings in this report were shared with the National Treasury and Ministry of Planning, and the Central Bank of Kenya. Furthermore, in preparation for this report, the team solicited views from a broad range of private sector participants.

# EXECUTIVE SUMMARY

1. **After multiple headwinds dampened growth in 2017, a nascent rebound in economic activity in Kenya is gaining momentum.** Economic growth decelerated to a 5-year low of an estimated 4.8 percent in 2017. Poor rains, slowdown in credit growth to the private sector and election-induced uncertainty weighed down on economic activity in 2017. Reflecting the easing of some of these headwinds, as well as a broad-based recovery in the global economy, the green shoots of a rebound in economic activity is underway.

2. **Growth is projected to recover over the medium term.** GDP growth is projected to recover to 5.5 percent in 2018, and steadily rise to 6.1 percent by 2020. On the upside, agricultural output is expected to rebound (thanks to better rains). The dissipation of political uncertainty and the recovery in the global economy is supporting a rebound in business sentiment. This should support a broad-based recovery in private investment. However, partially mitigating the lift from the upside drivers are the rise in oil prices; down-sizing of the fiscal stimulus from earlier years; and the still weak credit growth to the private sector. Regarding the latter, the baseline however assumes that the ongoing discourse to remove the interest rate cap, in its current form, will be successful in 2018, thereby supporting a robust recovery in private sector credit growth in 2019 and beyond.

3. **Notwithstanding the projected rebound in economic activity risks are tilted to the downside.** On the domestic front, fiscal slippages leading to macroeconomic instability; the persistence of the interest rate cap law into the medium term; and the potential for another drought could dampen growth prospects. On the external front, the main risks are a spike in oil prices and the potential for negative spill overs from global markets (trade and finance).

4. **The Government of Kenya has outlined four big priority areas for the next five years.** These are agricultural and food security, affordable housing, increased share of manufacturing, and universal health coverage. The attainment of these goals should help advance the Vision 2030 agenda – helping Kenya to move forward towards a middle-income economy with a high standard of living.

5. **Support from the public and more importantly the private sector will be required to achieve the Big 4.** In this regard, policy reforms can play an important catalytic role in incentivizing private sector resources to advance the Big 4.

6. **A stable macroeconomic environment will be foundational to advancing the Big 4.** Without macroeconomic stability the ability of government to allocate resources or for the private sector to contribute to the Big 4 will be seriously constrained. Hence, public sector resources devoted to the Big 4 will need to be contained within a fiscally sustainable resource envelope, consistent with the projected pathway of fiscal consolidation. Specific measures to create fiscal room to support the Big 4 could include: enhancing domestic revenue mobilization through the rationalization of tax exemptions; slowing the pace of expansion of recurrent spending and improving the efficiency of spending. Further, the potency of monetary policy will need to be restored to help re-ignite private sector lending. While prudent macroeconomic policies are necessary to lay down an appropriate foundation, critical sectoral policy reforms will be required to advance the Big 4.

7. **Boosting agricultural productivity and food security will require re-allocating more resources to agriculture and improving the efficiency of current spending in the sector.** Specifically, more resources could be re-allocated to support high-return public goods such as extension services and irrigation to small hold farmers. Further, reforms to improve the efficiency of spending (e.g. through better targeting of fertilizer subsidies; and re-allocating from producer subsidies to high-yielding public goods) would be beneficial. Other reforms that could be considered include passing the warehouse receipt bill to enhance access to finance; and reforming the seed market to allow for high-yielding seeds to be more readily available to smaller farmers; and climate proofing the agriculture sector.

8. **Kenya is in a strong position to make rapid progress to expand health coverage given the high level of political commitment and strong institutional foundations.** Attaining universal health coverage will

however require some level of government subsidies. Creating the fiscal space to be able to support increased health coverage will require the re-doubling of efforts to rebuild fiscal buffers (as previously discussed) so as to create the fiscal room to address this priority. Further, it will be critical that the expansion of health insurance is accompanied by continued and intensified efforts to strengthen NHIF systems and capacity, especially in the areas of costing benefit packages and provider payment mechanisms, and to address outstanding issues regarding the flow of funds to counties and public facilities.

9. **Policy options to advance manufacturing in Kenya need could focus on the 3Cs — competitiveness, capabilities and connectedness.** The development of industrial enclaves with reliable infrastructure and procedures can help address some of the structural bottlenecks that affect manufacturing competitiveness and help attract foreign direct investment. Firm-level capabilities can be enhanced by improving management and organizational practices that support the adoption of new technologies and international certification of quality standards. Worker capabilities can be enhanced by prioritizing literacy, numeracy and ICT skills and partnering with the private sector to enhance school curricula. On the external front, measures to strengthen regional integration and seizing opportunities under various preferential trade agreements can boost manufactured exports.

10. **Policy options to increase the provision of affordable housing could be advanced by addressing both supply and demand side bottlenecks.** On the supply side, specific measures could include: implementation of the supporting regulations to the Lands Act to increase the efficiency of the land registration and unlock the ability of developers to build affordable houses; implement a lands record storage system and regulations for electronic conveyance; amending the sectional properties Act to allow titles for multi-story units. Measures to boost the demand for affordable housing could include: lowering of yields on government securities to incentivize longer term lending (e.g. mortgages); standardization of mortgage contracts; and reviewing stamp duties for first time buyers.

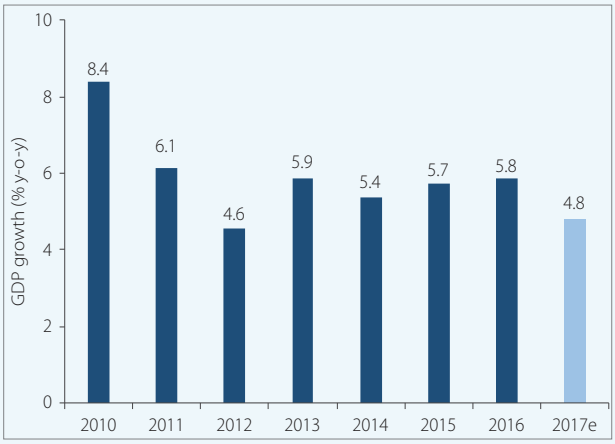
11. **In the special focus section of the report on poverty, macroeconomic drivers of poverty reduction in Kenya are analyzed, including an assessment of current levels against international benchmarks.** After a gap of ten years, in March 2018 the Kenya National Bureau of Statistics (KNBS) released the most recent official poverty statistics based on national poverty lines. This Economic Update reports poverty as the proportion of Kenyans living below the international poverty line at US$ 1.90 PPP 2011, to allow cross-country comparisons. Poverty dropped from 43.6 percent in 2005/6 to 35.6 percent in 2015/16, with poverty reduction driven by increased consumption for the poorest of the poor especially in the agricultural sector.

12. **Poverty incidence in Kenya is below the average in sub-Saharan Africa and a decade of strong economic growth has fueled a relatively fast pace of poverty reduction.** But considering Kenya's lower middle-income class status, current poverty incidence is relatively high compared to its middle-income peers. Moreover, in Kenya poverty is less responsive to growth compared to other countries where equivalent growth rates result in higher levels of poverty reduction. Growth in the agriculture sector accounted for the largest share of poverty reduction, but also revealed progress is vulnerability to climatic shocks.

13. **To eradicate poverty by 2030, Kenya would need a combination of higher growth, more inclusive growth, and growth that is increasingly driven by the private sector and translates into more rapid poverty reduction.** Using the KIHBS 2015/16 survey, the forthcoming Kenya Poverty and Gender Assessment (KPGA) will provide a more detailed analysis of the drivers of poverty reduction in Kenya through both a sectoral and spatial lens. The KPGA will also zoom into the gender aspects of poverty, contrast poverty profiles in urban and rural areas, and examine poverty through education, health and social protection lenses. The objective of the KPGA is to foster an evidence-based debate about policy options to accelerate poverty reduction in Kenya.

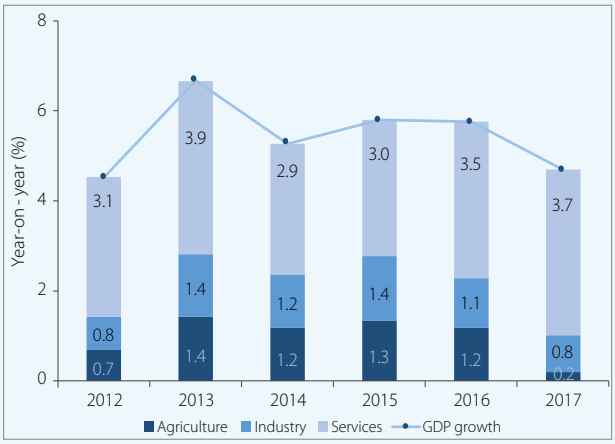
Photo: © Sarah Farhat /World Bank

### Multiple headwinds dampened economic performance in 2017



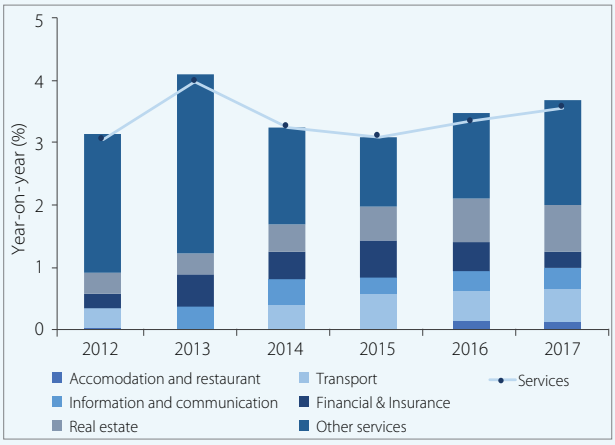

*Source: Kenya National Bureau of Statistics and World Bank*
*Note: "e" denotes an is an estimate*

### Resilience in the service sector mitigated weakness elsewhere in the economy




*Source: Kenya National Bureau of Statistics and World Bank*

### The service sector has remained resilient, albeit with differences across sub-sectors

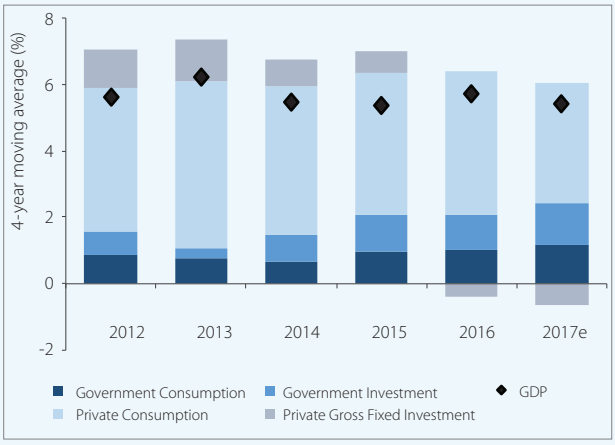



*Source: Kenya National Bureau of Statistics and World Bank*

### Recovery in the manufacturing sector has picked up pace in 2018

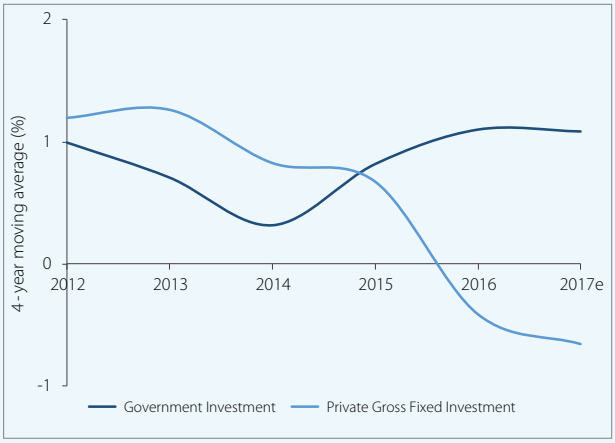

*Source: CFC Stanbic and World Bank*

### Public sector investment has been the key driver of growth



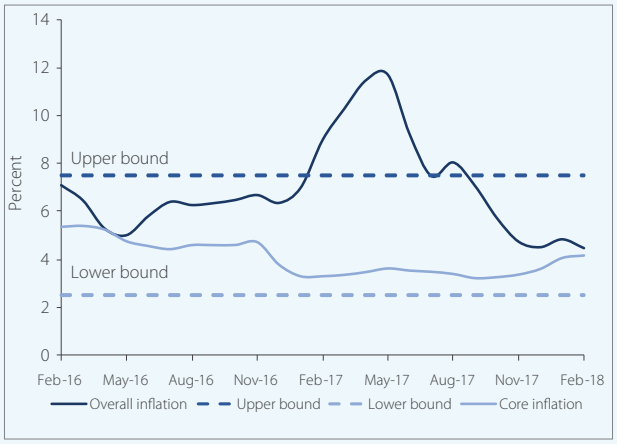

*Source: Kenya National Bureau of Statistics and World Bank*

### Private investment contribution to GDP growth has declined



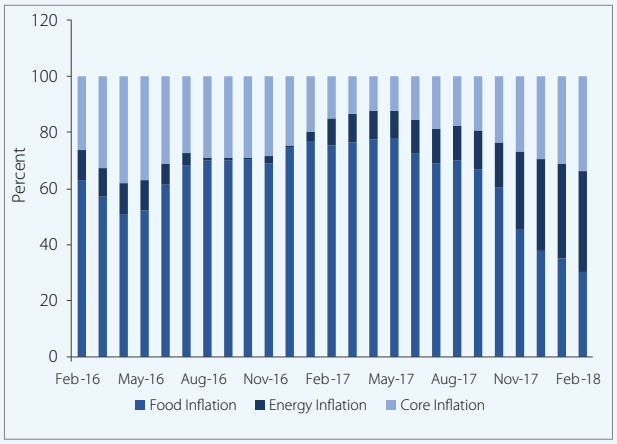

*Source: Kenya National Bureau of Statistics and World Bank*

### Inflation remains well within the target range



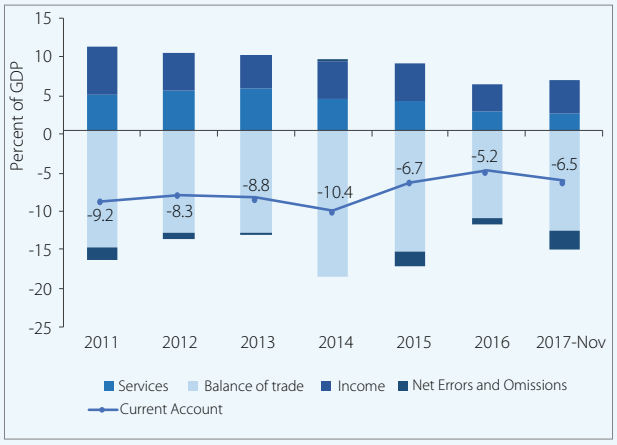

*Source: Kenya National Bureau of Statistics and World Bank*

### Energy and food prices continue to be the main driver of headline inflation in Kenya



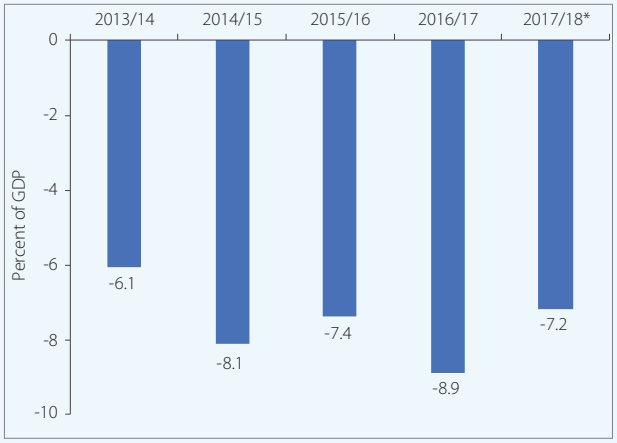

*Source: Kenya National Bureau of Statistics and World Bank*

### The increase in imports led to widening current account deficit



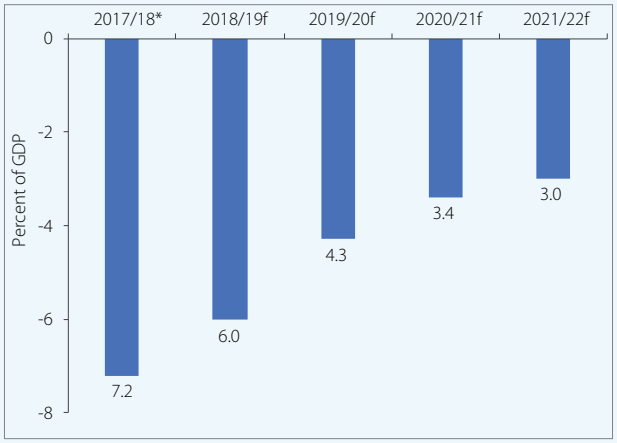

*Source: Central Bank of Kenya*

### Expansionary fiscal policy contributed to elevated fiscal deficit levels



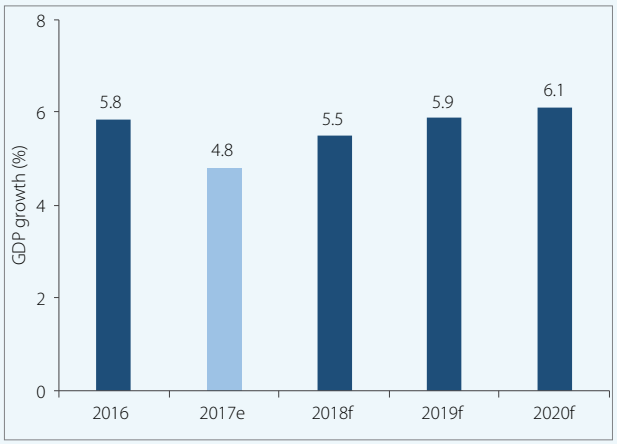

*Source: The National Treasury*
*Notes: * indicates preliminary results*

### Fiscal consolidation has begun and is expected to continue into the medium term




*Source: The National Treasury*
*Notes: * indicates preliminary results, "f" denotes forecast*

### Domestic demand will continue to be the main driver of medium term growth




*Source: World Bank*
*Notes: "e" denotes an estimate, "f" denotes forecast.*

# Part 1: The State of Kenya's Economy


Photo: © Kenya Ports Authority

# 1. Recent Economic Developments

## 1.1 A broad-based global economic recovery is underway

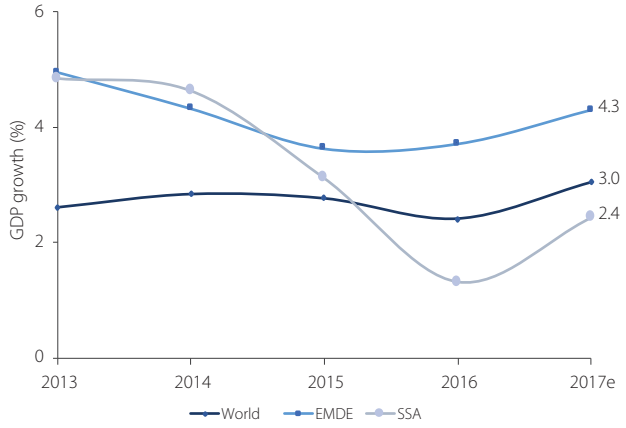
1.1.1. **For the first time since the global financial crisis, a broad-based pick-up in the global economy is underway.** Global GDP growth is estimated to have reached 3.0 percent in 2017, up from 2.4 percent in 2016. The recovery is broad based, coming from a synchronous recovery in both high income and emerging market economies. Notwithstanding downside risks, the recovery in the global economy is being supported by still benign financing conditions, generally accommodative monetary policy stance, a rebound in trade and investments, improved confidence with the global manufacturing Purchasing Managers' Index reaching a 7-year high in Q1 2018 and an upturn in commodity prices on the back of positive momentum in global trade (Figure 1).

1.1.2. **Supported by the uptick in commodity prices, a modest recovery is also underway in sub-Saharan Africa (SSA).** At (2.4) percent in 2017, growth in the region rebounded from a 22-year low of 1.3 percent in 2016 (Figure 1). While growth in non-resource rich countries remained stable on account of infrastructure investments, growth in resource rich economies such as Angola and Nigeria, was lifted by the beginning of a steady recovery in oil, metal and mineral prices. In Nigeria, a recovery in the oil sector was a key factor for the positive growth, as reduced attacks on oil pipeline paved way for increased production. Growth in the region is projected to accelerate to (3.2) percent in 2018 supported by strengthening commodity prices, the expected increase in demand as inflation declines, robust public investment growth in some economies, and improved rainfall that will see the rainfed agriculture sector flourish in addition to improved electricity supply.

1.1.2. **Real GDP growth in the East African Community (EAC) region decelerated, albeit still stronger than the SSA average.** In 2017, the EAC economies endured the adverse effects of drought and lower credit to private sector to grow at an average of 5.3 percent (Figure 2). Kenya lagged her regional peers by 0.5 percentage points to grow at 4.8 percent on account of poor rains, slow growth in credit to private sector and a prolonged election cycle. Tanzania, Rwanda and Uganda are estimated to have grown by 6.4 percent, 6.1 percent and 4.0 percent respectively in 2017. In Tanzania and Uganda growth was driven by a bumper harvest in the latter half of the year following favorable weather conditions while in Rwanda, improved weather and a rebound in exports explained accelerated growth from 6.0 percent recorded in 2016. In the wider EAC regions, Ethiopia maintained a strong growth at (10.3) percent in 2017 mainly driven by the public sector's investment in infrastructure.

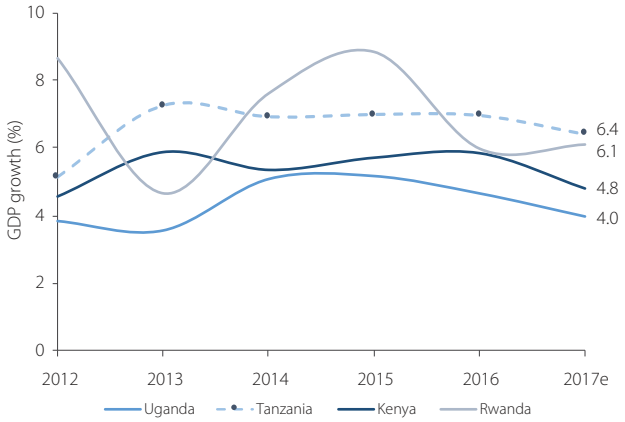
1.1.4. **Economic activity in Kenya moderated in 2017 on account of multiple headwinds, but a nascent recovery is underway.** Economic growth decelerated to a 5-year low of an estimated 4.8 percent in 2017 from 5.8 percent in 2016 (Figure 3). Poor rains, slowdown in credit growth to the private sector and election-induced uncertainty weighed down on economic activity in

**Figure 1: Global growth pick-up is broad-based**




*Source: World Bank*
*Notes: "e" denotes an estimate*

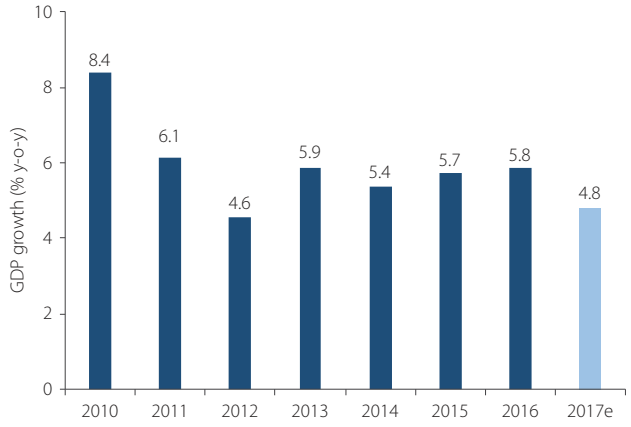
**Figure 2: Growth in the EAC countries decelerated in 2017, but is still above the SSA average.**




*Source: World Bank (MFmod)*
*Notes: "e" denotes an estimate*

2017. However, tail winds from the rebound in tourism, strong public investment, and resilient remittance inflows partially mitigated some of the headwinds the economy faced in 2017. Reflecting the easing of some of the transient headwinds including from improved rains and easing of political tensions following the conclusion of the Presidential elections, a nascent rebound in economic activity is beginning to take root in 2018.

**Figure 3: Multiple headwinds dampened economic performance in 2017**



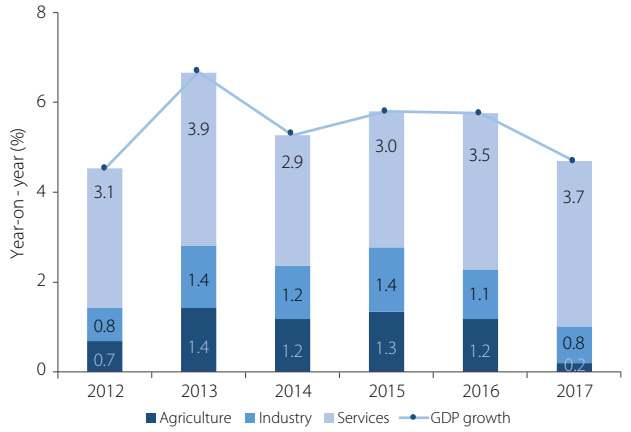

*Source: Kenya National Bureau of Statistics and World Bank*
*Notes: "e" denotes an estimate*

## 1.2 Following multiple headwinds that dampened output in 2017, an incipient recovery of the Kenyan economy has started

1.2.1. **Drought conditions dampened agriculture output in 2017, however with improved rains in Q42017, the sector is recovering.** With only 2.0 percent of Kenya's cultivable land under irrigation, agricultural output is highly rain dependent. Reflecting poor weather conditions in the first half of the year, the contribution of the agricultural sector to GDP growth in 2017 dropped from a historical average of about 1.2 percentage points to just 0.2 percentage points for the first three quarters of 2017 (Figure 4). Growth in the sector declined to 0.8 percent (first three quarters) from 5.0 percent for the same period in 2016. This was the lowest agricultural sector growth since 2009, an indication of the severity of the drought. The weakness in the sector's performance reflected in the contraction in output of key agricultural exports such as tea and coffee, and staple food such as maize, kale, and potatoes. However, better rains in the second half of 2017 improved the sector's fortunes, with solid recoveries recorded in Q4 2017 for tea, cane, and coffee output (Figure 5).

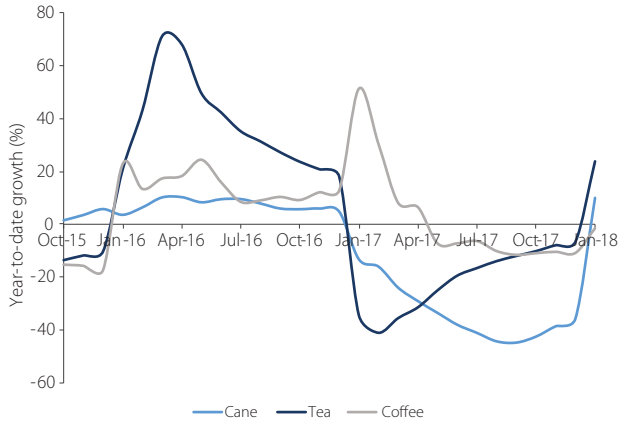
1.2.2. **Economic headwinds in 2017 adversely impacted manufacturing activity, however, with their easing, the green shoots of a modest recovery are underway, albeit uneven.** The industrial sector which accounts for some 19 percent of GDP, contributed only 0.8 percentage points to GDP growth in 2017 compared to a historical average of 1.2 percentage points on account of the headwinds faced by the economy. Growth in the manufacturing sector, an important pillar in the government's job creation agenda, but whose performance in recent years has been lack-lustre, decelerated to 2.4 percent in 2017 from 3.8 percent in 2016 (Figure 6). Activity in the sub sector was impacted by a prolonged electioneering period which dampened business sentiment and trade with neighboring countries; poor agricultural harvests which weakened agribusiness activity; and challenges in credit access which limited working capital and the ability of firms to expand. The weak performance was broad-based

**Figure 4: Resilience in the service sector mitigated weakness elsewhere in the economy**



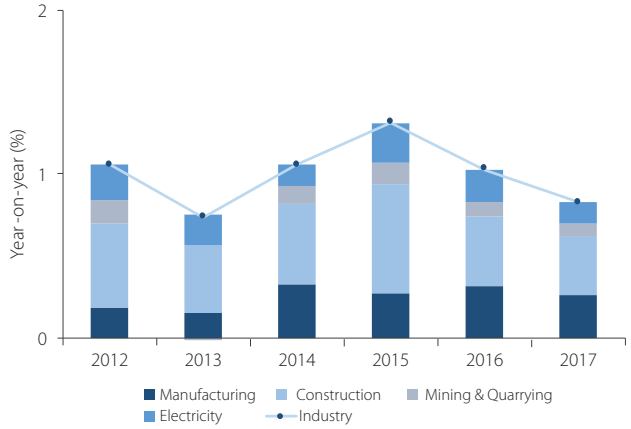

*Source: Kenya National Bureau of Statistics and World Bank*

**Figure 5: Drought conditions saw output in the agriculture sector decline, but a recovery is currently underway**




*Source: Kenya National Bureau of Statistics and World Bank*

**Figure 6: Economic headwinds in 2017 adversely impacted manufacturing activity, but a modest recovery is underway**



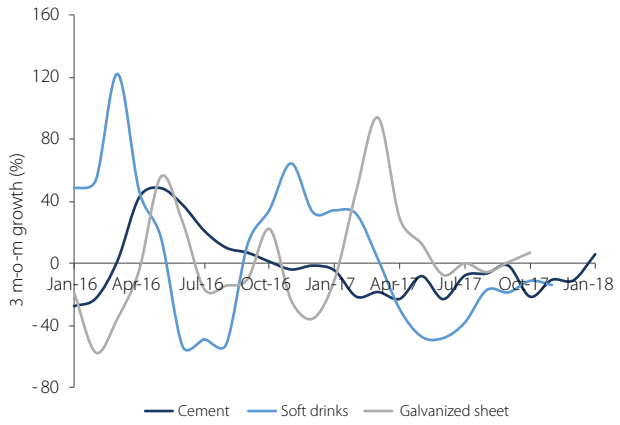

*Source: Kenya National Bureau of Statistics and World Bank*

as contractions were recorded in sugar, beverages, cement and galvanized sheet. However, reflecting an uneven recovery, as some headwinds started to ease in Q4 2017, there has been a pick-up in some sectors (e.g. cement, sugar and sheet metal), while output remained in contractionary territory for others (e.g. soft drinks) (Figure 7). Nonetheless, a healthy rebound in the Purchasing Managers Index for Q1 2018 suggests that the incipient recovery that began in Q4 2017, is continuing into 2018 (Figure 8).

**1.2.3. Performance in other industrial sub sectors was mixed in 2017.** While the manufacturing sector is the largest industrial sub-sector (50 percent), construction and electricity generation are also significant, accounting for some 25 percent and 13 percent of industrial activity respectively. Despite weakness elsewhere in the economy, growth in the construction sector was at a robust 6.9 percent (albeit lower than the 8.4 percent registered in 2016). Given weakness in private investment, much of the robust growth in the construction sector can be attributed to the higher execution of government development spending in 2017 (see section 1.3). In contrast to the robust performance in the construction sector, growth in electricity generation decelerated to 5.4 percent in 2017 from 7.9 percent in 2016. This was mainly on account of the lower generation of electricity from hydropower sources, given poor rains. With fiscal consolidation commencing in 2018 the construction sector is likely to moderate (unless private investment picks up strongly); however, electricity generation is picking up with improved rains.

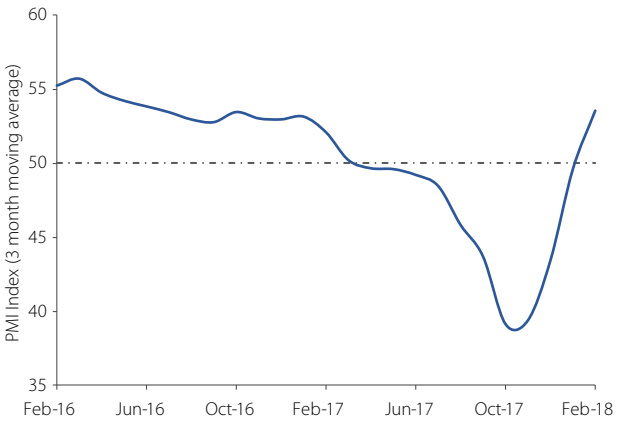
**1.2.4. The service sector has remained resilient, albeit with differences across sub-sectors.** The services sector, which accounts for 58.5 percent of GDP was the main engine of economic growth in 2017 — single handedly accounting for some 80 percent of the 4.8 percent growth (Figure 9). However, the robust performance in the sector was uneven. Reflecting the ongoing rebound in tourism, the accommodation and transport sectors recorded robust growth. Solid growth was also recorded in the ICT sub sector (thanks to the exponential growth in mobile money and data services) and the real Estate sub sector (spurred by the dynamism in commercial real estate market and steady growth in residential real estate market). Reflecting the dynamism in the real estate sector, the largest mall in East and Central Africa was completed and works on the tallest building in Africa began in 2017 — all of which are situated in and around Nairobi, the Nation's capital. However, reflecting ongoing challenges in the banking sector, including from the interest rate caps, growth in financial services, which has historically been one of the key drivers of GDP growth, decelerated to 4.0 percent — its lowest in over five years.

**Figure 7: After a weak performance in2017, there has been a pick-up in some manufacturing sub-sectors**



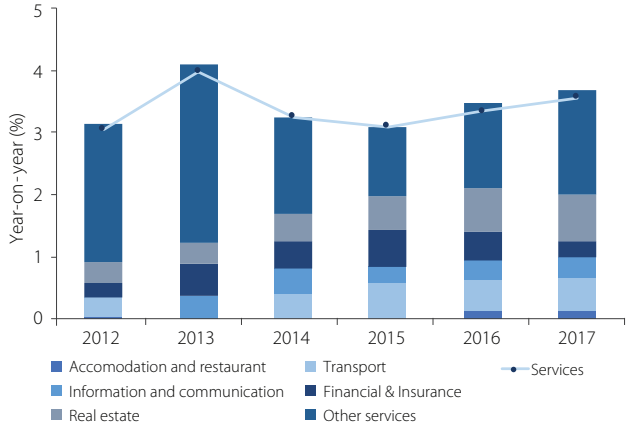

*Source: Kenya National Bureau of Statistics and World Bank*

**Figure 8: Business sentiment has sharply rebounded since the conclusion of the 2017 elections**



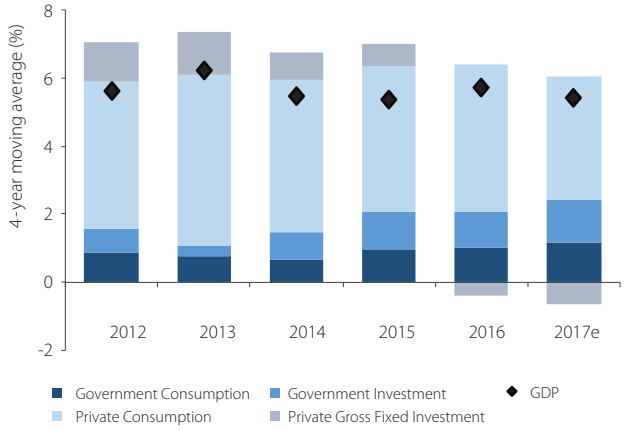

*Source: CFC Stanbic and World Bank*

**Figure 9: Though resilient, the contribution of service sub-sectors to GDP was heterogeneous**




*Source: Kenya National Bureau of Statistics and World Bank*

**Figure 10: Public sector spending has been an important driver of growth in recent years**




*Source: Kenya National Bureau of Statistics and World Bank*
*Notes: "e" denotes an estimate*

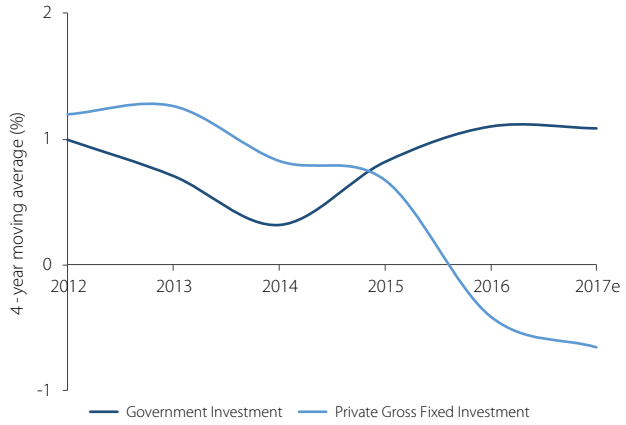
## 1.3 Government spending has been a key driver of growth in recent years, however the contribution from the private sector has waned

**1.3.1. The public sector has been a key driver of growth in recent years.** Over the past four years the public sector's contribution to GDP growth has more than doubled (from 1.1 to 2.5 percentage points of GDP). This has been spurred on by an expansionary fiscal stance with both increases in government consumption and public investment (Figure 10). In the four years to 2017, the contribution of government consumption to GDP growth increased by some 0.4 percentage points (0.8 to 1.2 percentage points of GDP). This reflects, *inter alia*, increased spending to support the roll out of devolution, new institutions under the new Constitution, response to wage agitations, rising debt service and pension liabilities. However, the increase in the contribution to GDP from public investment has been even higher than that of government consumption — i.e. from a mere 0.3 percentage points of GDP in the four years leading to 2013 to 1.3 percentage points. This reflects increases in development spending. Hence, the direct contribution (not taking into account fiscal multipliers) from total public spending to GDP growth was some 1.4 percentage points. The strong role of the public sector in driving growth continued in 2017 with high level of capital expenditures on infrastructure projects. Further, spending on transient items such as the general elections and food subsidies have contributed to higher government consumption.

**1.3.2. Worryingly, the contribution to growth from private investment has been decelerating in recent years.** Unlike the solid contribution to growth from public sector, the contribution from the private investment has been negative in recent years, declining from 1.3 percentage points of GDP in the four years leading to 2013 to negative 0.7 percentage points in the four years leading to 2017 (Figure 11) a-swing of 2 percentage points of GDP. In other words, had the private sector sustained its contribution to GDP growth throughout the 2013-2017 period, GDP growth would have been much higher. Based on sectoral growth performance (assuming growth in labor supply and technology constant), the sectors that have contributed to the weakness in private sector growth are agriculture, manufacturing, and trading activities whereas, private investment is likely to have been expanding more rapidly in the real estate and transportation sectors.

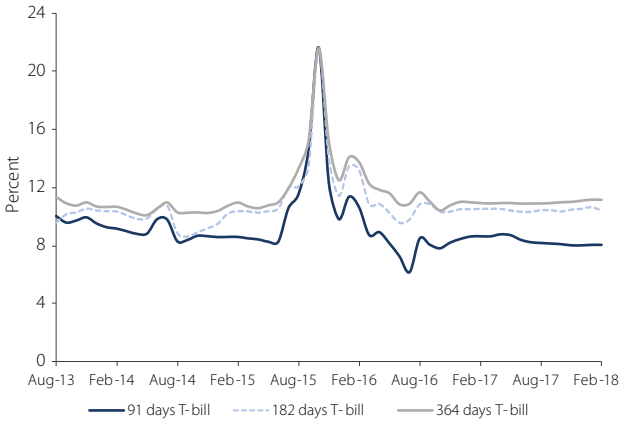
**1.3.3. Why has private investment lagged behind?** The reasons for this are multiple. First, to the extent that the rapid expansion in government spending (thereby leading to increased domestic financing requirement) in recent years has kept yields on benchmark government securities elevated (Figure 12), this has contributed to a sustained crowding out of the private sector weakening private investment. Second, this state of affairs has only been made worse by the interest rate cap law since 2016, which has incentivized the banks to re-allocate their portfolios in favor of the public sector. Thirdly, for 2017, headwinds from the heightened political tensions also led to a wait-and-see attitude which held back private investment. In 2018, the dissipation of political uncertainty should pave the way for higher private investment. Nonetheless until the relatively elevated yields on benchmark government securities decline significantly, the anticipated recovery in private investment is likely to be benign.

**Figure 11: Private investment contribution to GDP growth has declined**




*Source: Kenya National Bureau of Statistics and World Bank*
*Notes: "e" denotes an estimate*

**Figure 12: Government borrowing has kept yields of government securities elevated**

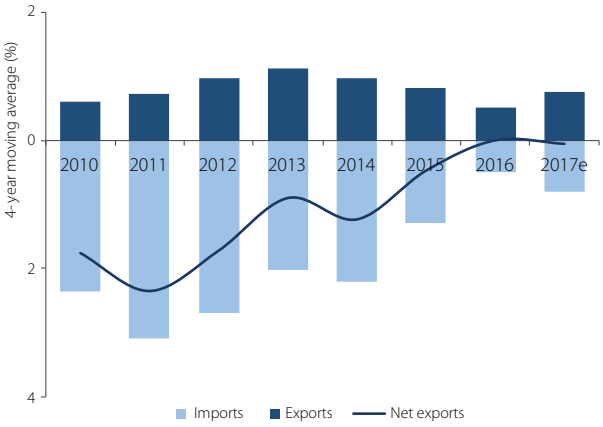



*Source: Central Bank of Kenya*

1.3.4. **The contribution from private consumption to GDP growth has also been subdued.** Private consumption remains the largest demand component of GDP, accounting for some 75 percent of GDP. Like private investment, the contribution to GDP growth from private consumption has declined: from about 5 percentage points of GDP in the four years leading to 2013 to 3.6 percent in the four years leading to 2017 (Figure 10). Private consumption likely worsened in 2017 as food prices escalated in the first half of 2017 due to poor weather conditions that adversely affected agriculture output, and led to severe famine in the arid parts of the country. However, government subsidies on staple food and relief efforts, together with robust remittance inflows helped mitigate the dampening effect on consumption from the higher prices. With the decline in food prices since Q4 2017, thanks to easing of the drought conditions, and the effects of earlier government subsidies, consumption should be on the rise.

1.3.5. **Growth has been propped up in recent years by a decline in the drag from net exports.** As is the case with most non-resource rich economies, the contribution of net exports to GDP growth is often negative. In the four years leading to 2017, the drag from net exports was only negative 0.1 percentage points of GDP in Kenya, compared to negative 0.9 percentage points of GDP in 2013 — thereby implying that the impact of changes to net exports over the past four years has been positive for GDP growth (Figure 13). A decomposition of the sources of this change suggests that this was overwhelmingly due to lower drag from the imports deduction from GDP growth (which is consistent with weaker private demand) rather than an increase in the positive contribution to GDP growth from exports.

**Figure 13: Growth has been propped up in recent years by a decline in the drag from net exports**




*Source: Kenya National Bureau of Statistics and World Bank*
*Notes: "e" denotes an estimate*

## 1.4 After years of an expansionary stance, fiscal consolidation is underway

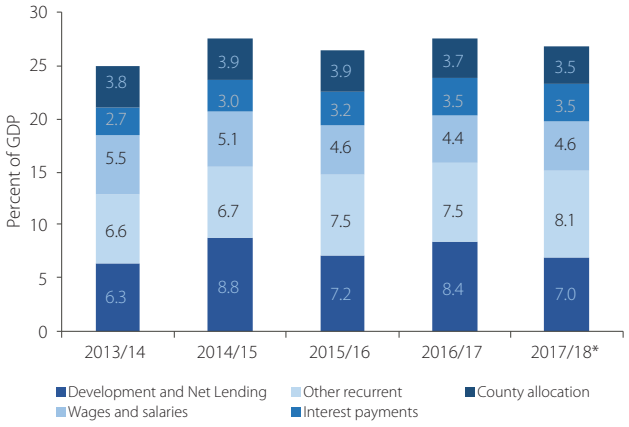
1.4.1. **The expansionary fiscal stance in recent years contributed to elevated fiscal deficit levels.** Kenya's expansionary fiscal policy began in FY 2013/14 (Figure 14), driven by the implementation of the 2010 Constitution (roll out of devolution and establishment of independent offices); execution of mega infrastructural projects; high wage bill and increasing interest payments; and transitional factors in FY 2016/17 (elections and drought mitigation expenditures). As a result, total expenditure steadily increased from 23.7 percent of GDP in FY 2011/12 to 27.6 percent of GDP in FY 2016/17. Notwithstanding robust GDP growth, tax revenues did not keep pace with government spending, thereby contributing to a widening deficit. Consequently, the fiscal deficit doubled from 4.5 percent of GDP in 2011/12 to 8.9 percent of GDP in 2016/17 and the stock of public debt rose as a share of GDP by 15.2 percentage points over that period.

**1.4.2. Starting 2017/18, fiscal consolidation has commenced.** Recognizing the importance of macroeconomic stability to sustain and accelerate Kenya's robust growth, fiscal consolidation began in 2017/18 (Figure 15) and is projected to continue over the medium term. In H1 2017/18, the fiscal outturn shows a lower fiscal deficit of 2.4 percent of GDP versus a half year target of 2.6 percent of GDP. While the government remains on track for its half-fiscal year target it is however important to recognize that with the prolongation of the elections into the Q4 2017, this might have hampered the execution of projects in the first half of the FY2017/18, thereby limiting spending. Hence a pick-up in spending is to be expected in the second half of FY 2017/18. Given the underperformance of revenue compared to the target, thus far in this fiscal year, it will be important for fiscal discipline to be maintained in order to achieve the 7.2 percent of GDP target for FY17/18.

**1.4.3. The biggest driver of fiscal consolidation is the slowdown in the pace of development spending.** Increased development expenditure in recent years driven by infrastructural projects has been an important driver of Kenya's growth (averaging 1 percentage points of GDP in the last five years) and is expected to enhance the competitiveness of the economy. Nonetheless, much of the burden of fiscal consolidation is being shouldered by development spending. Ongoing fiscal consolidation in FY 2017/18 targets a decline of total expenditure by 1.4 percentage points as a share of GDP, of which 1.2 percentage points (86 percent) is coming from development expenditure. Based on fiscal outturn in H1 2017/18, development spending experienced a slowdown (decelerated by 36.7 percent equivalent to a decline of 0.97 percentage points of GDP).

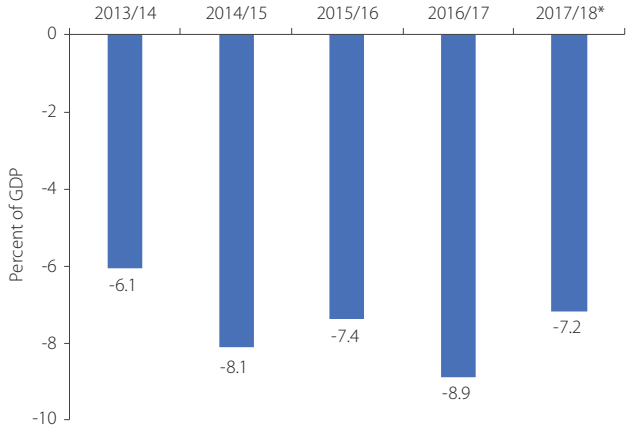
**1.4.4. On the contrary, the contribution from recurrent expenditure to the ongoing fiscal consolidation in 2017/18 remains minimal.** Reflecting the more challenging task of rationalizing recurrent spending, the contribution of recurrent expenditure to the ongoing fiscal consolidation process in FY 2017/18 is much lower (targeted at 0.1 percentage points) than that of development expenditure (1.2 percentage points). The net decline in recurrent spending is projected to come from a reduction in domestic interest payments (by 0.4 percentage points of GDP), while other recurrent spending items (wages, foreign interest payments, operations and maintenance) are expected to rise (by 0.3 percentage points). So far in H1 2017/18, recurrent expenditure increased by 20.4 percent. Challenges in reining in recurrent spending reflect government's expenditures on the election rerun of October 2017, drought related food subsidies, foreign interest payments, and meeting demands of public sector wage agitations. The need to rein in recurrent expenditures has become more pertinent given the increasing share of recurrent expenditure in revenues — both at national and county level. At national level, as a share of ordinary revenue, recurrent expenditure increased from 86.2 percent in H1 2016/17 to 98.5 percent in H1 2017/18. Similarly, at county level, recurrent expenditure accounted for a larger share total county revenue (61.9 percent), mainly driven by personnel emoluments (50.1 percent of total county revenue in Q1 2017/18).

**Figure 14: Government spending has been elevated in recent years**




*Source: The National Treasury*
*Notes: * indicates preliminary results*

**Figure 15: Expansionary fiscal policy contributed to elevated fiscal deficit levels**




*Source: The National Treasury*
*Notes: * indicates preliminary results*

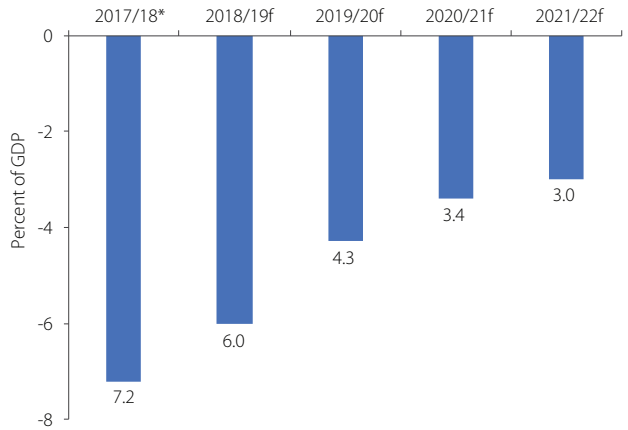
1.4.5. **While a slowdown in the pace of development spending is in order, a growth friendly fiscal consolidation should combine efforts to raise tax revenue with the reining in of recurrent spending.** At the heart of most fiscal consolidation packages is the need to increase tax revenues and to rein in expenditures, both development and recurrent expenditures.[1] However, from a growth perspective, the latter should take a greater weight. Further, to counteract the drag from fiscal consolidation, policy measures could be put in place to stimulate the private sector's contribution. For instance, while the state slows down on development spending a regulatory environment and incentive structure could be instituted to achieve flagship infrastructure projects through public private partnership initiatives. Thereby providing an avenue where the State does not have to act through public bodies but through private entities to advance spending on infrastructure such as roads, which are financed through tolls and vignettes. This is, in fact, consistent with the completion of some mega projects (Energy - Olkaria) and the country's reorientation towards public private partnerships (e.g. dualling of Mombasa-Nairobi is being carried through a PPP).

1.4.6. **A more ambitious cut in the recurrent spending is needed to rein in the fiscal deficit.** This is critical given the increasing share of recurrent expenditure in revenues — both at national and county level. At national level, as a share of ordinary revenue, recurrent expenditure increased from 86.2 percent in H1 2016/17 to 98.5 percent in H1 2017/18. Similarly, at county level, recurrent expenditure accounted for a larger share total county revenue (61.9 percent), mainly driven by personnel emoluments (50.1 percent of total county revenue in Q1 2017/18). After one-off expenditures, associated with the 2017 general elections and drought mitigation, a lower baseline in recurrent expenditure could obtain if the Government focuses on lowering of transfers to state owned enterprises, cleaning the payroll of ghost and redundant workers, reducing the level of wage adjustments and frugality in operations and management expenses.

1.4.7. **Recurrent spending also needs to be contained at the County level.** While the provisions under the PFM Act (2012) regulation 26(1) that caps the percent of national government revenue to be used in compensation of employees at 35 percent has been adhered to (31.71 percent in 2014/15; 31.01 percent in 2015/16; and 28.48 percent in 2016/17); a similar cap at the county government level could help contain county-level recurrent spending. Section 107(2c) of the PFM Act 2012 requires that the county government expenditure on wages and benefits to its public officers not to exceed a percentage of the county government's total revenue as prescribed by the County Executive member of Finance in regulations approved by the County Assembly. This flexibility on caps setting at the county government level could have led to the 50.1 percent of total county revenue in Q1 2017/18 being spent on personnel emoluments at the county governments. Policy could help tighten this fiscal rule in line with the 35 percent required for the national government's expenses on personnel emoluments.

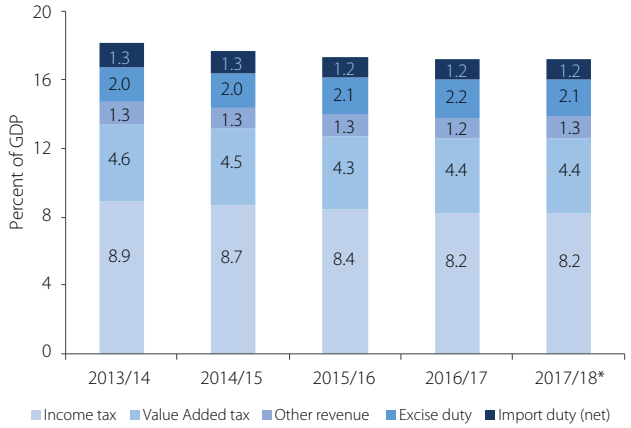
1.4.8. **Domestic revenue mobilization has underperformed in recent years.** As a share of GDP, revenue collections have consistently decreased in the

**Figure 16: Fiscal consolidation has begun and is expected to continue into the medium term**




*Source: The National Treasury*
*Notes: * indicates preliminary results*

**Figure 17: Revenue growth has moderated**




*Source: The National Treasury*
*Notes: * indicates preliminary results*

[1] *Nauschnigg (2006), Nauschnigg (2010).*

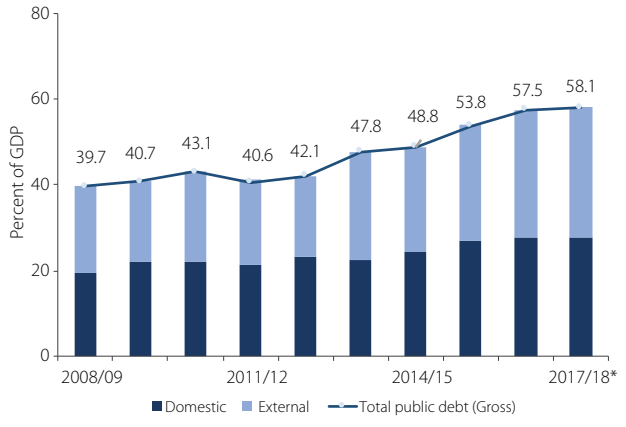
last three fiscal years, declining from 18.1 percent of GDP in FY 2013/14 to 17.2 percent of GDP in FY 2016/17 (Figure 17). However, based on the data for H1 2017/18, revenue collections recorded a modest growth of 5.3 percent, short of the target by 0.5 percentage points of GDP. The main drivers of revenue growth remained Kenya's traditional sources of tax revenue including income tax, VAT, and import duty. Policy reforms and administrative measures to support domestic revenue mobilization include integration of iTax and IFMIS, roll out of integrated custom management, and expansion of tax base (e.g. informal sector, betting, and pursue non-filers).

**1.4.9. The primary fiscal deficit has been the main driver of rising debt stock.** Debt to GDP ratio has increased from 40.6 percent of GDP in FY11/12 to an estimated 58.1 percent of GDP in FY17/18, representing a cumulative increase of 17.5 percentage points (Figure 18). The increase was largely driven by the primary fiscal deficit that rose steadily from 1.8 percent of GDP in 2011 to an average of about 4 percent over the 2012-2017 period (Figure 19). The second important contributor to the rise in the debt to GDP ratio is the increase in interest payments, which has increased from 1.9 percent of GDP to an average of 2.5 percentage points of GDP over the 2012-2017 period. On the otherhand the rise in debt to GDP has also been partially mitigated, first by robust GDP growth (contributing to a decline by some 2.4 percentage points) and secondly through revaluations (by some 2.3 percentage points).

**1.4.10. The overall increase in debt stock arises from both external and domestic sources.** External debt reached 29.8 percent of GDP in June 2017, while domestic debt stood at 27.4 percent of GDP, representing 3.0 and 0.4 percentage points higher than their level in June 2016 respectively. On the composition of external debt, the stock of debt on concessional basis continued to decline. The share of multilateral debt to total external debt declined by 7.0 percentage points to 38.0 percent in June 2017 compared to the same period in 2016 in favor of bilateral and commercial banks (which rose by 2.8 and 4.1 percentage points to 32.7 percent and 28.6 percent in June 2017 respectively). In February 2018, Kenya successfully issued a US$ 2 billion Eurobond (US$ 1billion for 10 years and US$ 1 billion for 30 years at 7.25 and 8.25 percent respectively). While this is expected to lengthen the maturity profile of loans as well as help refinance upcoming bullet payments on external debt obligations, exchange rate risks and vulnerability to developments in international markets have also increased.

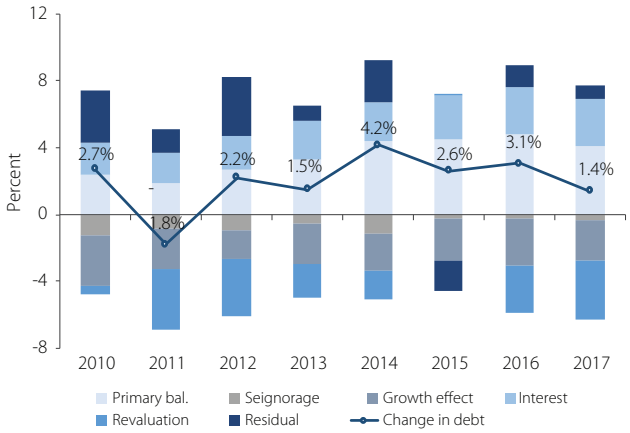
**1.4.11. A growth friendly fiscal consolidation can help stabilize public debt.** Given the importance of growth in stabilizing debt dynamics, it is important that ongoing fiscal consolidation occurs in a growth-friendly manner. In that regard, a path where much of the weight of fiscal consolidation is falling on development spending, while not addressing the structural factors that keep recurrent spending high could undermine Kenya's long-term growth potential. Hence efforts to re-calibrate the balance between development and recurrent spending should help safeguard robust growth. This will lend support to boosting domestic revenue mobilization, a reduction in the primary deficit, and thereby contribute to a more favorable debt trajectory.

**Figure 18: The overall increase in debt stock arises from both external and domestic sources**




*Source: The National Treasury*
*Notes: * indicates preliminary results*

**Figure 19: The primary fiscal deficit remains the key driver to rising debt stock**



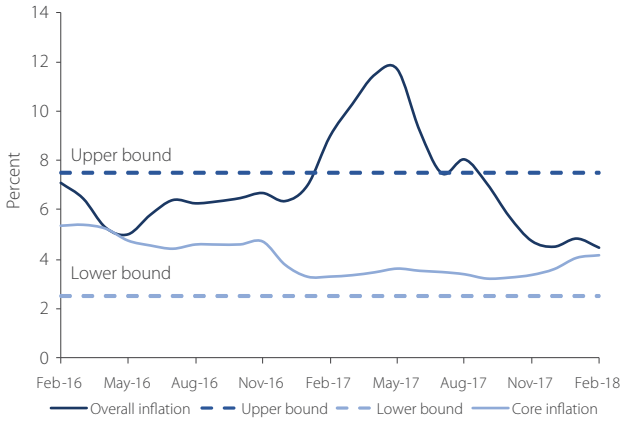

*Source: The National Treasury, Central Bank of Kenya and World Bank*

## 1.5 Inflation has eased off since H2 2017, while credit conditions remain tight

**1.5.1. Following a spike in inflation in H1 2017, inflation has since decelerated to the lower end of the target band (5±2.5 percent).** A sharp increase in food prices pushed headline inflation above the target range starting in February 2017. However, inflationary pressures started to ease as the weather situation improved and the food subsidies introduced by government to address food shortages came into effect. As a result, headline inflation fell to 4.2 percent in March 2018 compared to the high of 11.7 percent in May 2017. Core inflation, which excludes food and energy prices, fell to 3.2 percent in October 2017—its lowest level since March 2011— but has since recovered to 4.2 percent in February 2018 (Figure 20). The low level of core inflation is consistent with an economy where demand pressures are still benign. With Kenya being a net oil importer, the recent rise in international oil prices is contributing to a pick-up in energy inflation (Figure 21). However, the stability of the exchange rate (Figure 23) continues to remain a nominal anchor to inflationary pressures and expectations.

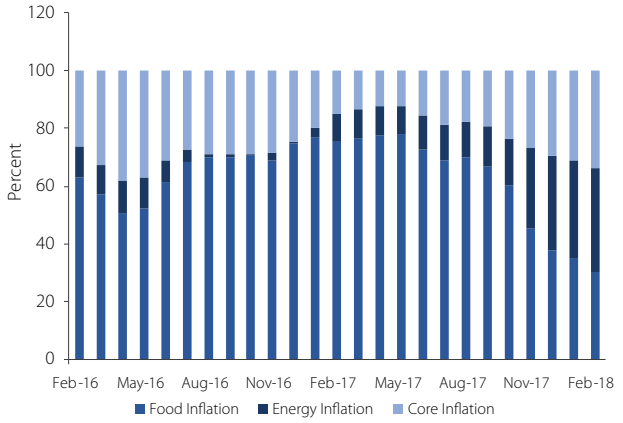
**1.5.2. With the Banking Amendment Act of (2016) still in place, monetary policy remains compromised.** Given that the policy rate is directly linked to the level of interest rate cap, there is a perverse incentive structure for using the policy rate to spur or restrain economic activity. For instance, under the new regime, a lowering of the policy rate — an action often taken by Central Banks globally if they want to stimulate economic activity — could lead to the opposite effect since the lowering of the cap further narrows the spread between yields on risk free government securities and the maximum allowed lending rates. Since September 2016, the policy rate was kept stable at 10.0 percent (Figure 25), however, in March 2017, the policy rate was cut by 50bps (now at 9.5 percent) to support economic activity, given the weaker growth in 2017.

**Figure 20: Inflation remains well within the target range**



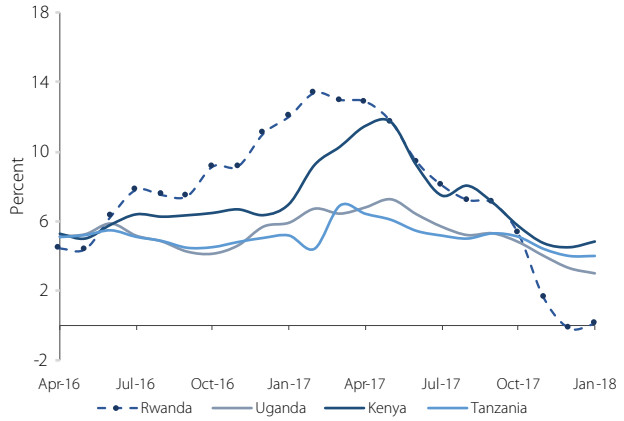

*Sources: Kenya National Bureau of Statistics*

**Figure 21: Food and energy prices continue to be the main driver of headline inflation in Kenya**



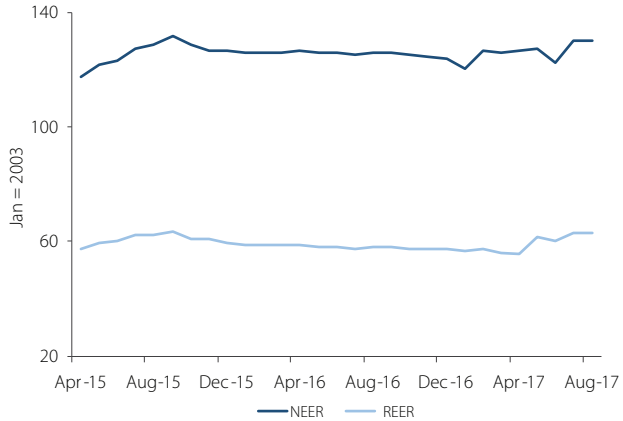

*Sources: Kenya National Bureau of Statistics and World Bank*

**Figure 22: Inflation decelerated sharply in most EAC economies because improved weather conditions and subdued demand pressures**




*Sources: Kenya National Bureau of Statistics, National Institute of Statistics Rwanda, Uganda Bureau of Statistics and Tanzania National Bureau of Statistics*

**Figure 23: There has been a modest appreciation in the nominal exchange rate in 2018**

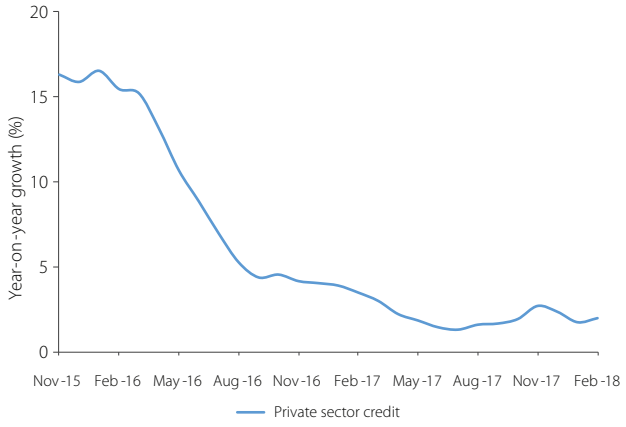



*Sources: Central Bank of Kenya*

**1.5.3. Weakness in private sector credit growth continued unabated in 2017.** Private sector credit growth fell from its peak of about 25 percent in mid-2014 to (2.0) percent in February 2018 (Figure 24). The slowdown in credit growth is broad based, with credit contraction in key sectors of the economy in 2017 (Agriculture, private households, exports and business services). Whereas large corporations have adequate liquidity, micro and small and medium-sized enterprises (SMEs) encounter greater challenges to access financing. Episodic increases in volatility in the inter-bank market also reflect in part the structural liquidity segmentation in the banking system. Since the conclusion of the elections in August 2017, the interbank rate has declined by some 190 basis points from 8.1 percent to 6.3 percent in February 2018, suggesting improvement in the liquidity situation among banks (Figure 25). However, the decline has not yet translated to increased lending to the private sector.

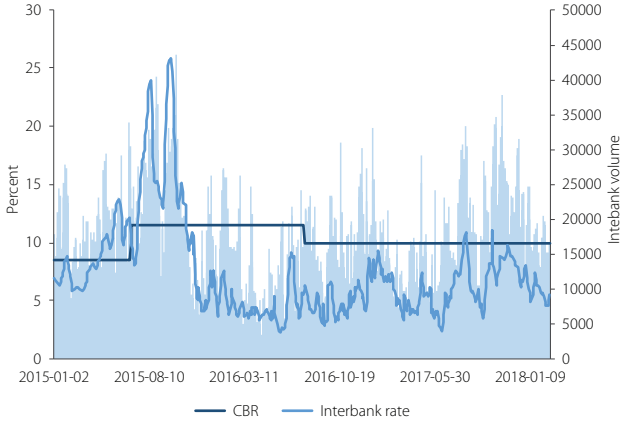
**1.5.4. The rise in non-performing loans contributed to tighter lending conditions in 2017.** Non-performing loan ratio (NPLs) increased have increased to 11.4 percent in February 2018, up from 10.6 percent December 2017 and 7.8 percent in 2016. This rise in NPLs was broad-based across sectors, however, trade, personal & households, manufacturing and real estate had the highest level of NPLs (Figure 26). Notwithstanding the deterioration in NPLs, capital ratios (risk weighted) remains broadly unchanged at 18.5 percent in December 2017 compared to December 2016. However, headwinds from the compression in interest margins, a low growth environment, and economic uncertainty related to the prolonged electioneering period affected the profitability of the sector. In December 2017, return on assets at 2.5 percent, though still sizeable, are at the lowest level in a decade. Risks are, however, inherently high for smaller banks whose business models are now challenged by interest rate caps.

**Figure 24: Weakness in private sector credit growth continued unabated in 2017**



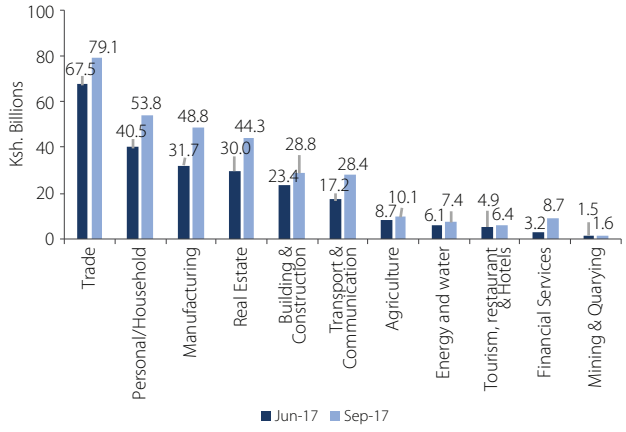

*Source: Central Bank of Kenya*

**Figure 25: The CBR has remained unchanged since September 2016 while interbank rates have been volatile**



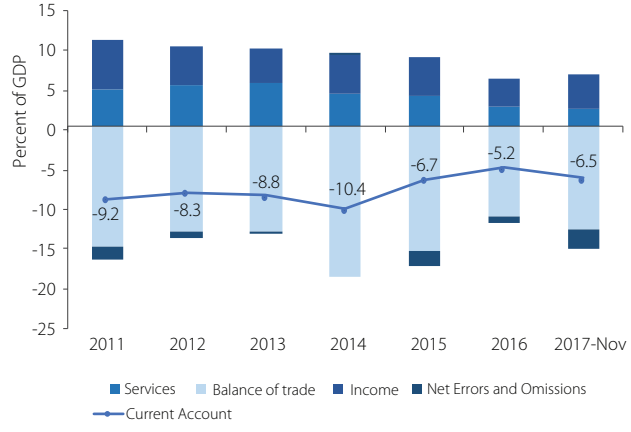

*Sources: Central Bank of Kenya*

**Figure 26: Rise in non-performing loans contributed to tighter lending conditions in 2017**




*Source: Central Bank of Kenya*

**Figure 27: Deteriorating balance of trade led to widening current account deficit**




*Sources: Central Bank of Kenya*

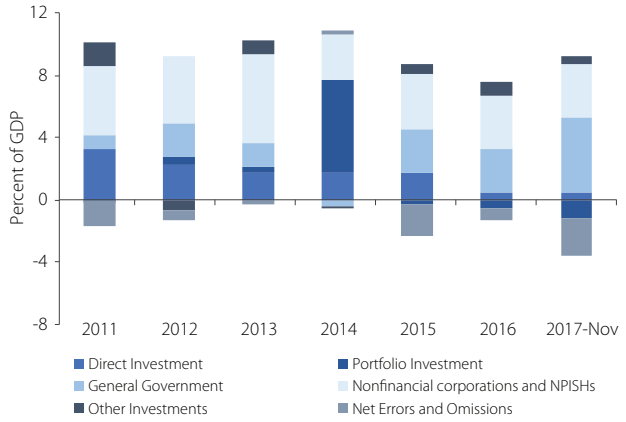
## 1.6 Rising oil prices and underperformance of exports are contributing to the widening of current account deficit

**1.6.1. Kenya's current account deficit widened in 2017.** Following a pickup in international commodity prices and economic recovery among Kenya's major trading partners (e.g. the EU, USA etc.), the value of Kenya's agricultural exports improved in 2017. Tea, coffee, and horticulture grew by 11.5 percent, 11.3 percent, and 1.1 percent respectively in 2017, compared to 4.2 percent, -1.6 percent and 5.7 percent respectively in 2016. However, the expansion in agricultural exports was unable to mitigate the contraction from manufactured exports. Indeed, manufactured export volumes and re-exports from neighboring countries contracted on account of disruption to trade logistics arising from the prolonged election cycle. On the imports side, a moderate recovery of international oil prices, public infrastructural projects, and an increase in food imports to supplement for poor harvests led to a rise in the import bill. Total imports increased by 18.1 percent in 2017 (November), compared to a contraction of 12.4 percent growth in 2016. The widening of the current account deficit was curbed by the rebound in tourism receipts and increased diaspora remittances. Remittances grew by 12.9 percent in 2017, travel receipts increased by 17.1 percent in 2017 compared to 8.1 percent in 2016 (Figure 27).

**1.6.2. The financial account balance improved in 2017.** With respect to the financing of the current account, the financial account balance improved to about 7.5 percent of GDP in November 2017 compared to about 5.9 percent of GDP in 2016 (Figure 28). In terms of the breakdown of capital flows, the balance on the financial account has been driven almost entirely by the "other investments" category related to foreign borrowing by the government while banks have continued to see a decline in external financing — a likely compounding factor to the decline in credit to the private sector. In contrast, net foreign direct investments inflows have been subdued (Figure 29). At about 5.9 months of imports, international reserves provide a comfortable buffer against external shocks.[2]

**1.6.3. The stock market recovered in 2017, although performance has been muted since Q4 2017.** After years of a bear market, the Nairobi Stock Exchange recovered by some 33 percent in 2017. However, performance was mixed during the year. Prior to the elections, the NSE Index had risen by some 44 percent reflecting a re-allocation of portfolios towards equities as the real interest rate on government securities fell whereas price earnings ratio (P/E) ratios on stocks were at attractive valuations. However, reflecting the heightened uncertainty following the annulment of the first presidential elections, there was a sharp decline in foreign equity outflows from the Nairobi stock exchange in September 2017. Since then, the index has remained somewhat muted, stabilizing around the 3700-3800 range. However, as the stock market stabilized in Q4 2017, there was a rotation into government bonds reflecting attractive valuations, and the relative safety of bonds amidst a softening of global investor risk appetite for emerging markets (EM) assets so far in 2018 (Figure 29).

**Figure 28: Capital inflows have helped to finance the current account deficit and accumulate reserves**




*Source: Central Bank of Kenya*

**Figure 29: Foreign portfolio flows have favored government bonds over equity in recent months**


*Sources: Central Bank of Kenya*

[2] *The Monetary Policy Committee meeting held on 19th March 2018 reported CBK reserves at 5.9 months of import cover (USD 8.8 billion), which includes proceeds from the recently issued Eurobond.*

# 2. Outlook

## 2.1 Growth is projected to recover over the medium term

2.1.1. **Notwithstanding fiscal consolidation, economic activity is poised to rebound over the medium term.** GDP growth is projected to recover to 5.5 percent in 2018, and steadily rise to 6.1 percent by 2020 when output gaps in the economy would have closed, (Table 1) and (Figure 30). On the upside, the rebound in economic activity is predicated on favorable rains which should be supportive of the ongoing rebound in the agriculture sector, the dissipation of political tension and the strengthening of the global economy. However, partially mitigating the lift from the upside drivers are the rise in oil prices; down-sizing of the fiscal stimulus from earlier years; and the still weak credit growth to the private sector. Regarding the latter, the baseline however assumes that the ongoing discourse to repeal the interest rate cap will be successful in 2018, thereby supporting a robust recovery in private sector credit growth in 2019 and beyond.

## 2.2 Recovery in private demand is expected to drive the rebound in growth, even as the stimulus from fiscal policy wanes

2.2.1 **A modest recovery in private consumption is expected to occur over the medium term.** The baseline assumes normal weather conditions. With that, food price inflation is expected to remain benign, thereby lending support to the recovery in private consumption, unlike in 2017 when household consumption was hit hard by the drought. With the ongoing broad-based recovery in the global economy, remittances to the economy is projected to be robust, thereby lending support to household consumption. Further, given that unsecured lending to households has been one of the hardest hit borrower segments in the aftermath of the interest rate cap regime, the anticipated repeal or significant modification to the cap is likely to bolster private consumption as more households gain credit. However, on the downside, with global oil prices expected to continue their steady rebound (about 10 percent increase in 2018 over 2017 prices) and with the pass-through of these prices dampening household real incomes, this will serve as a drag on private consumption, thereby mitigating the lift from some of the upside factors.

2.2.2. **With fiscal consolidation underway, the earlier stimulus from the fiscal stance is expected to wane over the medium term.** Government expenditures have expanded at a compound average growth rate of 12.1 percent between FY13/14 and FY16/17, and with that the contribution of government spending (including recurrent and development) to GDP growth has averaged about 1.8 percentage points. In other words, over the past five years about a third of growth has come from the public sector. With fiscal consolidation underway, the pace of expansion of government spending is projected to slow down to 5.8 percent. On the one hand, this will reduce the stimulus to the economy coming from the public sector, nonetheless, a necessary step to safeguard macroeconomic stability. On the other hand, to the extent that the slowdown in government spending is likely to translate into lower

**Table 1: Medium term growth outlook (annual percent change unless indicated otherwise)**

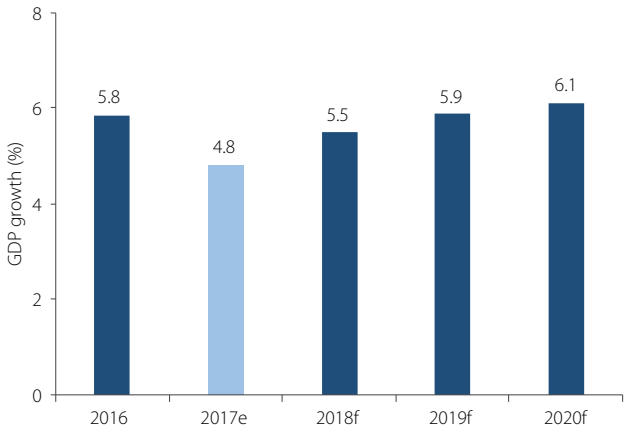
| | 2014 | 2015 | 2016 | 2017e | 2018 f | 2019 f | 2020f |
|---|---|---|---|---|---|---|---|
| Real GDP growth | 5.4 | 5.7 | 5.8 | 4.8 | 5.5 | 5.9 | 6.1 |
| Private Consumption | 4.3 | 5.1 | 4.8 | 4.6 | 5.2 | 5.7 | 5.7 |
| Government Consumption | 1.7 | 13 | 7 | 9.9 | 5.9 | 4.1 | 2 |
| Gross Fixed Capital Investment | 14.2 | 6.7 | -9.3 | 1.5 | 9.2 | 9.5 | 12.1 |
| Exports, Goods and Services | 5.8 | 6.2 | 0.6 | 2.8 | 5.8 | 6.8 | 7 |
| Imports, Goods and Services | 10.4 | 1.2 | -4.7 | 3.8 | 7.8 | 7.4 | 7.6 |
| Agriculture | 4.3 | 5.5 | 4 | 2.3 | 3.9 | 4.3 | 4.6 |
| Industry | 6.1 | 7.3 | 5.8 | 2.9 | 4 | 4.8 | 5 |
| Services | 6.3 | 5.9 | 7.1 | 6.7 | 6.8 | 7 | 7.1 |
| Inflation (Consumer Price Index) | 6.9 | 6.6 | 6.3 | 8 | 6.8 | 6.5 | 6.5 |
| Current Account Balance (% of GDP) | -10.4 | -6.7 | -5.2 | -5.5 | -6.5 | -7.2 | -8.4 |
| Fiscal Balance (% of GDP) * | -8.1 | -7.4 | -8.9 | -7.2 | -6.0 | -4.3 | -3.4 |

*Sources: World Bank and the National Treasury*
*Notes: "e" denotes an estimate, "f" denotes forecast.*
**Fiscal Balance is sourced from National Treasury and presented as Fiscal Years*

yields on benchmark securities, this should help crowd-in private investment, contributing to the recovery of the economy. Further, the completion of critical infrastructure projects including the first phase of the SGR, and ongoing infrastructure investments (including PPPs) such as the second phase of the Standard Gauge Railway (SGR), electricity generation, Lamu Port, and the upgrade of several highways are expected to ease supply-side constraints to growth in the economy.

2.2.3. **Private investment growth is expected to recover, but could remain sub-par without a supportive policy environment.** With the easing of political uncertainties in the aftermath of the Presidential elections, pent-up investment is coming onstream as the wait-and-see attitude adopted by the private sector in 2017 gives way to a rebound in business sentiment (as reflected in the recent increase in PMIs). Further, the strengthening of the global economy is providing a further fillip to private sector activity as external demand for Kenyan goods and services (e.g. tourism) is expected to increase. However, the extent to which the private sector in Kenya will be able to take advantage of improving conditions could be curtailed by the extent to which it is starved of credit. Our baseline assumes that with a repeal or significant modification of the cap in 2018, credit conditions will improve by 2019, thereby lending support to a recovery in the private sector. Relatedly, this will help bring down yields on government securities, thereby incentivizing banks to lend to the broader private sector rather than current skewed lending to the public sector or blue-chip Kenyan companies. However, as noted in the risk section, if the favorable policy environment, factored in our baseline does not materialize, the expected recovery in private sector activity will be significantly curtailed.

**Figure 30: Domestic demand will continue to be the main driver of medium term growth**




*Source: World Bank*
*Notes: "e" denotes an estimate, "f" denotes forecast*

2.2.4. **The contribution of net exports will be moderate.** Historically, the contribution of net exports to GDP growth has been negative, subtracting about 1.1 percentage points from GDP growth. Lower oil prices in recent years has however reduced the extent of the drag from net exports. However, since oil prices are expected to continue their steady ascent in 2018 and beyond, we expect the drag from net export over the forecast horizon to rise. This is expected to be mitigated somewhat by the lift from Kenya's merchandise (horticulture and tea) and services (mainly tourism) exports as the projected broad-based recovery in the global economy takes root. Further, with fiscal consolidation underway and with it a projected slowdown in development spending, this should moderate the pace of import expansion and reduce the extent of the drag from the net exports contribution to growth.

# 3. Risks remain tilted to the downside

## 3.1 Introduction

3.1.1. **While our baseline projects a rebound in economic activity, there remain several risks.** On balance, risks are however tilted to the downside. This section addresses some of the key domestic and external risks Kenya faces.

## 3.2 Domestic risks

3.2.1. **The projected growth in the economy could be derailed if the ongoing weakness in private sector credit growth is not reversed.** Our baseline assumption assumes that the ongoing consultation to repeal the law on interest rates caps and other measures to boost credit growth to the private sector will come to fruition. If this does not occur, it presents a significant downside risk to growth prospects since weak credit growth will dampen effective demand by households, stunt business expansion plans, and lower the growth potential of the Kenyan economy over the long-run. For Kenya's rebound in growth to be sustained over the medium term, it must be accompanied by sufficient growth in credit to the private sector and especially to micro, small and medium enterprises that contribute to growth and job creation.

3.2.2. **Deviations from projected fiscal consolidation path could jeopardize Kenya's hard-earned macroeconomic stability and raise debt to GDP ratio.** Fiscal slippages represent a significant risk to maintaining macroeconomic stability — a key enabler to achievement of the big four agenda of the Government and the projected growth. Given past pressures from recurrent expenditures, vulnerability to drought effects and a persistent underperformance of revenues vis-a-vis targets, fiscal pressures could mount if the planned path for fiscal consolidation is not adhered to. This could have adverse implications for government borrowing cost, crowding out of the private sector, exchange rate stability, and high interest payments, thereby potentially reversing some of Kenya's recent gains (macro-stability, robust growth, poverty reduction) and curtailing growth.

3.2.3. **The ongoing recovery in business confidence could dissipate if political tensions were to escalate.** Our baseline assumes a return to political normalcy following a prolonged election cycle in 2017. However, in the unlikely event of an escalation in political tensions, the ensuing political uncertainty could cripple the recent recovery in business confidence and curtail private investment and consumption, thereby leading to a weaker than projected growth performance.

3.2.4. **Insufficient rains and potential for drought conditions present significant downside risks to the projected growth.** Our forecast assumes normal rains for March-May 2018 rain season and over the medium term. However, if normal or near normal rains do not materialize, it poses a significant risk to agricultural output, with downside risks to medium term growth.

## 3.3 External risks

3.3.1. **Spillovers from tighter global financial conditions represent a risk to Kenya's medium-term prospects.** In our baseline, we assume a normal adjustment of monetary policy in major advanced economies that does not result in disruption of global financial markets conditions. However, tighter global financial condition could be triggered by an increase in interest rates in major advanced economies or developments that prompts global risk aversion (e.g. the recent proposal to slap taxes on steel and aluminum in the US). This could raise Kenya's external financing risks, reduction in capital flows to Kenya, exchange rate depreciation and rising interest rates payments. However, this risk is assessed low given the recent successful issuance of a US$ 2 billion Eurobond (US$ 1billion for 10 years and US$ 1 billion for 30 years at 7.25 and 8.25 percent respectively) that was over-subscribed. Furthermore, given a comfortable level of official foreign reserves estimated at US dollar 8.9 billion (equivalent to 4.5 months of import cover) in December 2017 there is scope to absorb exogenous shocks associated with tightening global financial conditions.

Photo: © Sarah Farhat/World Bank

*The projected growth in the economy could be derailed if the ongoing weakness in private sector credit growth is not reversed*

**3.3.2. Weaker global growth and the sub-region.** The baseline assumes a further firming up of the global economic activity and recovery in growth of the sub-Saharan African (SSA) region. This is expected to support manufacturing exports (mainly to COMESA) to the sub-region and auger well for Kenya's growth prospects. Nonetheless, escalating tensions in global trade, adversarial geopolitical developments, and an increase in policy uncertainty among high-income countries could mark down global growth. If this were to occur, support to growth from the global economy through trade, tourism, investment and remittances would be weaker than assumed in the baseline, thereby presenting a downside risk to Kenya's growth prospects.

**3.3.3. Sharper than expected increase in oil prices could present a downside risk to Kenya's projected growth.** The baseline assumes a moderate increase in global oil prices that is expected to be accommodated without excessive pressures on the current account balance and terms of trade. However, a sharper than expected rise in oil prices could result in deterioration of terms of trade, rising energy prices and inflation that could potentially weaken the domestic demand and overall growth. This, however, remains a tail risk event given that higher oil prices are likely to induce a supply response, especially from US shale oil producers.

**3.3.4. Despite the vulnerabilities to growth, there are several positive factors that have not been factored in the baseline forecasts, which could yield better outturns to the growth forecast.** These include a better than expected recovery in the global recovery, above average rains leading to bountiful harvests, a swifter than projected recovery in private sector credit growth following the cap, a downturn in global oil prices. Were anyone or a combination of these to occur, there could be significant upside risks to the baseline projections.

# Part 2: Special Focus I

Assessing Poverty Reduction in Kenya Against International Benchmark

Photo: © Sarah Farhat/World Bank

# 4. Assessing Poverty Reduction in Kenya Against International Benchmark

## 4.1 Introduction

4.1.1. **Poverty incidence declined from 46.8 percent in 2005/06 to 36.1 percent in 2015/16, using Kenya's official national poverty lines.** The Kenya National Bureau of Statistics (KNBS) released the most recent poverty statistics in March 2018, based on the second Kenya Integrated Household Budget Survey (KIHBS 2015/16). KIHBS 2015/15 closes an important data gap, as the previous survey collecting expenditure data to estimate poverty was implemented 10 years ago in 2005/06.[3] The 'Basic Report on Well-Being in Kenya' by the Kenya National Bureau of Statistics (2018) provides a detailed assessment of poverty at the national poverty line and describes progress since 2005/06.

4.1.2. **While the national poverty lines are critical to analyze poverty dynamics and distribution within the country, they are not comparable across countries.** Kenya's national poverty line is derived from the Cost-of-Basic Needs (CBN) method.[4] The CBN method stipulates a consumption bundle deemed to be adequate for 'basic consumption needs', and then estimates what this bundle costs in reference prices. As basic consumption needs are usually different across countries, the poverty rate measured by the national poverty line is not comparable across countries. Therefore, this Special Section uses the international poverty line defined at US$ 1.90 PPP 2011 (Box B.1).

### Box B.1: The International Poverty lines

**The international poverty line is defined in absolute terms as a threshold of purchasing a fixed basket of goods that meets basic needs across countries.** The concept of an international poverty line was first introduced in the 1990 World Development Report. The objective was to measure poverty in a consistent way across countries, using a poverty line that reflected conditions of poverty in poor countries, while also considering real purchasing power across countries of all incomes. To decide on an international poverty line, the World Bank analyzed data from 33 national poverty lines from both developed and developing countries in the 1970s and 1980s. The threshold of US$ 1 a day was agreed upon and became the first international poverty line.

**Over the years, the poverty line has periodically been adjusted as new purchasing power parity (PPP) measures became available.** The new measures reflected both changes in relative price levels across countries, as well as changes to methodologies. The poverty line increased from US$ 1 a day at 1985 PPPs to US$ 1.08 at 1993 PPPs, then to US$ 1.25 at 2005 PPPs, and finally to its current level of US$ 1.90 at 2011 PPPs. The increase in the international poverty line can be mostly attributed to changes in U.S. dollar purchasing power relative to the purchasing power of the local currencies in the poorest countries. Essentially, the increase in the poverty line says that US$ 1.90 in 2011 real terms would buy about the same basket of goods that US$ 1.25 bought in 2005.

**The World Bank introduced an additional set of international poverty lines in 2016, taking into account the relationship between national poverty lines and the wealth of the country.** These lines are defined as the median national poverty line for each grouping of countries by their GNI per capita, using the World Bank classification of countries as low-income, lower middle-income, upper middle-income and high-income. The World Bank now reports poverty rates for countries using the new lower middle-income and upper middle-income poverty lines. The poverty line for lower middle-income countries is US$ 3.21 per day and for upper middle-income countries, it is US$ 5.48 per day. In addition to these poverty lines, this section also uses a US$ 1.25 2011 PPP poverty line to further distinguish between the poor living below US$ 1.90 and the poorest living below US$ 1.25.

**To allow for international comparisons, poverty in this chapter is estimated using the current international poverty line and the lower middle-income class poverty line.** Since 2014, Kenya has been classified as a lower middle-income country. Its current GNI per capita of US$ US$ 1,380 puts it at the bottom of the lower middle-income class (LMIC) grouping.[7] As the poverty lines are defined at US$ 2011 PPPs, this is converted to the local currency used to measure consumption for both survey years 2005 and 2015. First, US$ 2011 are converted into Kenyan Shilling in 2011 using the PPP estimate for Kenya (35.43). Second, the change in purchasing power per Kenyan Shilling is adjusted for by considering inflation or deflation to the survey period as measured by the national Consumer Price Index (CPI).

[3] *The KIHBS 2015/16 utilized a two-stage stratified cluster sampling method with the objective of providing data for poverty estimates at national and county levels as well as for urban and rural areas. The sample included 24,000 households from 2,400 clusters distributed to urban and rural strata for each of the 47 counties in Kenya based on the 2009 Census. The survey was implemented for a duration of 12 months from September 2015 to August 2016 to take into account seasonal effects. Source: Kenya National Bureau of Statistics (2018): 'Basic Report on Well-Being in Kenya'.*

[4] *The American Economic Review, Vol. 84, No. 2, Papers and Proceedings of the Hundred and Sixth Annual Meeting of the American Economic Association. (May, 1994), pp. 359-364.*

[5] *Source: World Bank Open Data Catalogue.*

4.1.3. **In this special section, the macroeconomic drivers and the trends of poverty reduction are analyzed, including an assessment of current levels against international benchmarks.** The relationship between macro-economic growth and poverty is important to assess the transmission of growth on poverty reduction. It also helps to understand resilience against shocks and the vulnerability of the population to fall into poverty. International benchmarking puts Kenya's achievements in terms of poverty reduction and well-being into perspective, highlighting areas that might require more policy attention.

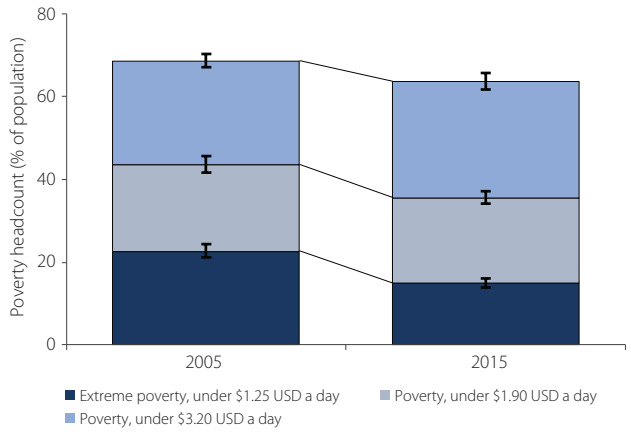
4.1.4. **A detailed assessment of poverty in Kenya and policy implications will be provided in the forthcoming World Bank Kenya Poverty and Gender Assessment (KPGA).** Based on the KIHBS 2005/06 and KIHBS 2015/16 surveys as well as other relevant data sources like the Kenya Demographic and Health Survey (2014), the KPGA will describe in detail poverty characteristics and trends in Kenya, including sectoral deep dives into health, education and social protection. The analysis in the KPGA will be disaggregated to acknowledge — e.g. spatial and gender — differences to make relevant distinctions in drawing conclusions. The in-depth analysis will provide specific policy recommendations to accelerate poverty reduction and foster shared prosperity.

## 4.2 Poverty Trends

4.2.1. **About 1 out of 3 people in Kenya live below the international poverty line.** The daily consumption expenditure for 35.6 percent of the population is below US$ 1.90 in 2011 PPP. For 63.7 percent of the population it is below US$ 3.20 in 2011 PPP (Box B.1). The poverty rate has moderately reduced over the past decade at both international poverty lines, dropping from 8 percentage points at the US$ 1.90 line and five percentage points at the US$ 3.20 line between 2005 and 2011 (Figure 31). Poverty reduction has been steady over the past decade, except for a shock to consumption in the years following the 2008 global economic crisis (Figure 33).

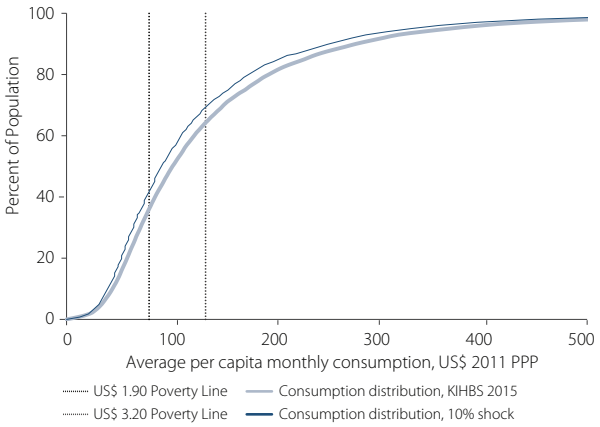
4.2.2. **Increased consumption for the poorest of the poor has driven poverty reduction in the past decade.** The rate of poverty under the threshold of $1.25 USD a day in 2011 PPP, has decreased by 7.8 percentage points since

**Figure 31: Poverty at the US$ 1.25, 1.90, and 3.20**




*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

**Figure 32: Cumulative consumption distribution with shock**




*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

**Table 2: Key monetary poverty Indicators** [6]

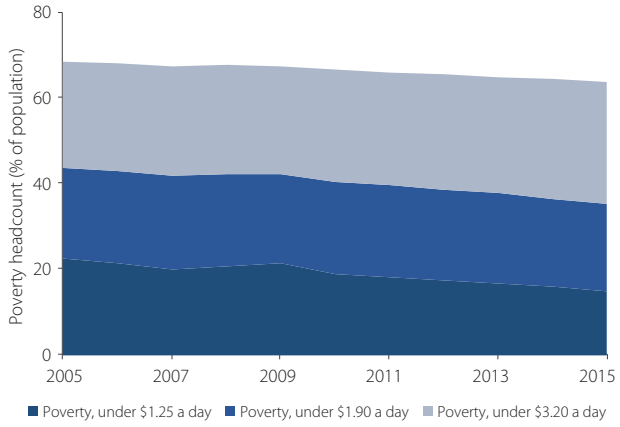
| | Poverty Headcount (%) | | Piverty Gap (%) | |
|---|---|---|---|---|
| | 2005 | 2015 | 2005 | 2015 |
| US$ 1.25 2011 PPP poverty line[7] | 22.7 | 14.9 | 7.3 | 4.0 |
| US$ 1.90 2011 PPP poverty line | 43.6 | 35.6 | 16.1 | 11.3 |
| US$ 3.20 2011 PPP poverty line | 68.7 | 63.7 | 33.0 | 27.5 |

*Source: Kenya National Bureau of Statistics KIHBS 2005 & 2015) and World Bank*

[6] *Poverty estimates in this section are preliminary. The official source for World Bank estimated poverty headcounts is PovcalNet. The estimation for poverty was made using a per capita aggregate for consumption. The poverty line was adjusted using the 2011 PPP estimate and inflated or deflated to the survey period. The official CPI used for 2011 was 121.1654. For the KIHBS 2005, the weighted average of the official CPI for the survey period was 73.2557. For the KIHBS 2015 survey period, it was 166.299.*

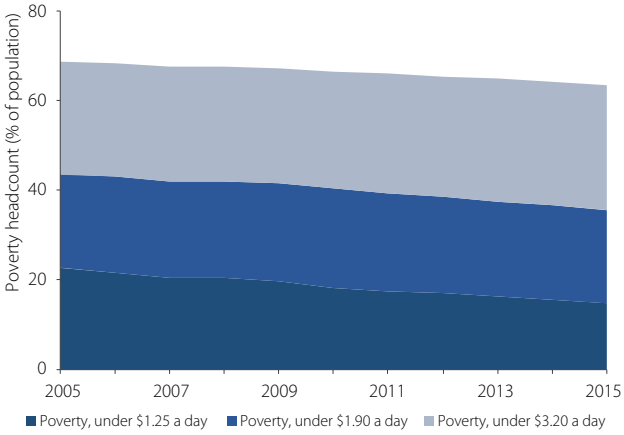
[7] *The US$ 1.25 2011 PPP poverty line is used to distinguish further between the poorest living below this poverty line and the poor living below US$ 1.90 2011 PPP poverty line.*

**Figure 33: GDP sectoral simulation of poverty trajectory at international poverty lines, 2005 to 2015**




*Source: Kenya National Bureau of Statistics (KIHBS 2005) and World Bank*

**Figure 34: Overall GDP growth simulation of poverty trajectory at international poverty lines, 2005 to 2015**




*Source: Kenya National Bureau of Statistics (KIHBS 2005) and World Bank*

2005 to reach 14.9 percent in 2015 (Figure 31). The reduced poverty at the international poverty line reflects these improvements. Measured by the poverty gap index, which is the average deficit between the total consumption of the poor and the international poverty line, depth of poverty decreased from 16.1 percent of the poverty line in 2005 to 11.3 percent in 2015 (Table 2).

4.2.3. **Well-being has stagnated for households living between the US$ 1.90 and US$3.20 poverty lines.** The percentage of the population consuming between US$1.90 and US$3.20 increased by 3 percentage points between 2005 and 2015 (Figure 34). This is not surprising as increases in consumption of the very poor have pushed them above the US$ 1.90 poverty line while in the same period not as many (net) households increased consumption beyond US$ 3.20. Therefore, still many households have a certain degree of vulnerability to fall back into poverty measured at the US$ 1.90 level. A 10 percent consumption shock would push a fifth of households currently between US$ 1.90 and US$ 3.20 below the US$ 1.90 a day threshold, raising the poverty headcount by 5.9 percentage points (Figure 32).

4.2.4. **To estimate the relationship between poverty reduction and growth at the sector level, the evolution of poverty from 2005 to 2015 is simulated based on sectoral growth rates, while assuming no redistribution beyond that resulting from differences in sectoral growth.** Consumption expenditure per household from KIHBS 2005 is augmented based on the growth rate of the household head's sector of economic activity. The poverty rate per sector in KIHBS 2015 provides the anchor to determine the pass-through parameter of that sector. Thus, the pass-through parameter can be defined as the elasticity of a sector's growth to changes in the consumption of households employed in that sector.[8] In other words, the pass-through parameter ensures that sectoral GDP growth transmitted to household consumption growth is consistent with the observed changes in poverty between 2005 and 2015.

4.2.5. **Growth in the agriculture sector accounted for the largest share of poverty reduction.** In the years following the slow-down of growth in 2008, the agriculture sector experienced a strong rebound (Figure 35). From 2011 to 2015, growth averaged 4.1 percent. Comparing poverty rates from KIHBS 2005 and KIHBS 2015 data, households benefitted the most from agriculture sector growth compared to other sectors of the economy. From 2005 to 2015, the poverty rate decreased by 2.2 percentage points for Kenyans living in a household engaged in agriculture (Table 3). The share of households engaged in agriculture slightly dropped from 50.7 percent in 2005 to 47.8 percent in 2015 (Figure 36). The large share of households in agriculture, combined with a high pass-through rate in the sector, drives the poverty reduction impact, also because most poor are in the agricultural sector.

4.2.6. **Shocks in the agriculture sector have a large impact on poverty.** Households engaged in agriculture benefit from the highest pass-through rate, especially for those consuming less than $1.25 a day (Figure 37). For these households, real consumption increased by 0.75 percent for each 1 percent growth in the agriculture sector. The flipside of a high pass-through rate is the vulnerability to shocks. For example, the estimated trajectory of poverty reduction

[8] *Occupations are categorized into three broad categories: 1) agriculture; 2) manufacturing; 3) services. Assumptions about sectoral pass-through parameters for these sector groupings are drawn from the sectoral decomposition of poverty analysis between 2005 and 2015. Parameters are assumed to be constant over years. For households without reported household head occupation, average GDP growth is applied.*

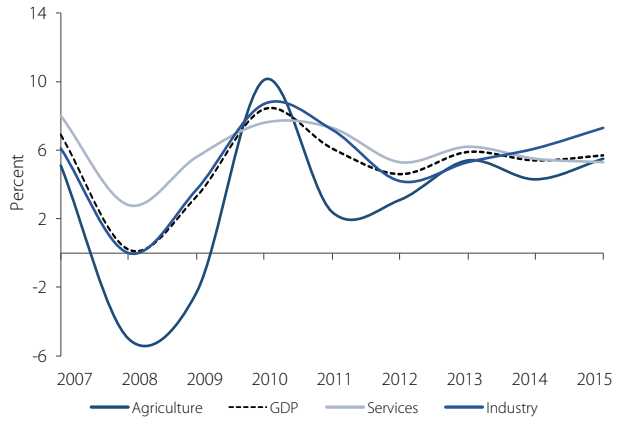
slowed following a shock to agriculture growth in 2010 (Figure 33 and Figure 35). The poverty headcount decreased by less than one percentage point from 2010 to 2011.

**4.2.7. The industry sector has a weak relationship between growth and poverty reduction.** While the number of households in the industry sector is low at 9.1 percent in 2005, it increased to 12.4 percent in 2015. For all poverty lines, the poverty rate for households in the industry sector decreased by less than one percentage point (Table 3) between 2005 and 2015. This is not surprising as most households in the industrial sector are non-poor, so growth in the sector cannot have a strong impact on poverty reduction. However, the shift of households to the industry sector strongly contributes to poverty reduction. For poverty at US$ 1.90, the intra-sectoral effect on poverty reduction is around 5 percentage points (Table 3). Thus, the changes in sectoral composition — with households moving from agriculture and services to industry — had a much stronger impact on poverty reduction than the pass-through growth effect.

**4.2.8. Poverty reduction is relatively strong for households in the services sector.** Growth in this sector followed a similar trajectory to that of the agriculture sector, but with more stability and less vulnerability to shocks (Figure 35). The share of households in this sector remained constant from 2005 to 2015, at about 40 percent (Figure 36). The poverty rate at the US$ 1.90 threshold decreased by 1.5 percentage points for households in this sector between 2005 and 2015 (Table 3), indicating the sector has a relatively higher pass-through rate compared to the industrial sector.

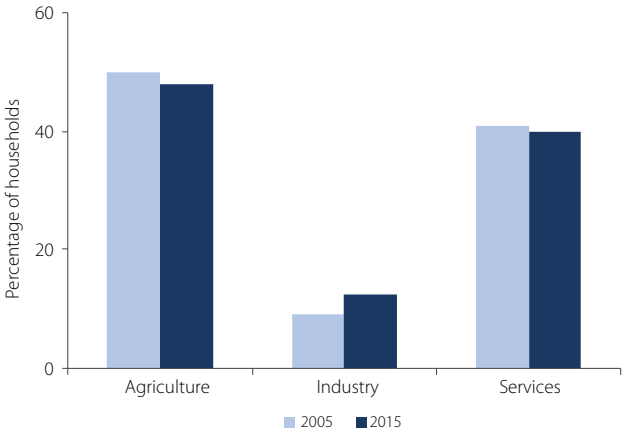
**4.2.9. Kenya is not on track to eradicate poverty by 2030.** In order to achieve a poverty rate below 3 percent by 2030, the poverty rate must decrease by 32.6 percentage points. However, Kenya's annualized poverty reduction rate was 1.8 percent between 2005 and 2015. Assuming this rate is maintained for the next 15 years, the poverty rate will remain above 25 percent in 2030. To achieve an annual poverty reduction rate of 6.1 percent (which would be necessary to reach the 3 percent goal) growth needs to be higher, more inclusive, and coupled with redistributive policies.

**Figure 35: Real sector growth, 2007 to 2015**




*Source: Kenya National Bureau of Statistics*

**Figure 36: Share of households by sector of household head occupation, 2005 vs. 2015**



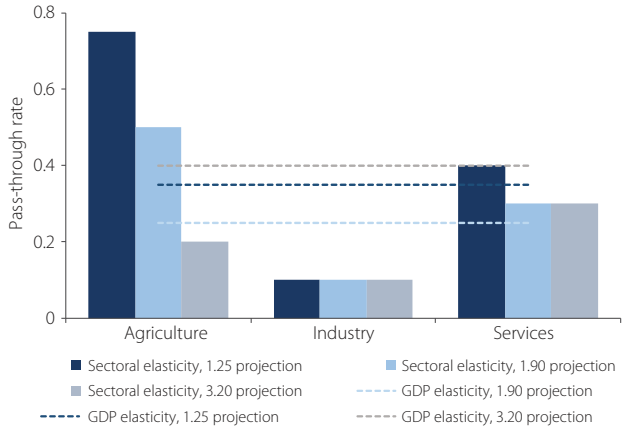

*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

**Table 3: Sectoral decomposition of changes in poverty**

| Sector | US$ 1.25 line | | US$ 1.90 line | | US$ 3.20 line | |
|---|---|---|---|---|---|---|
| | Absolute change | Percentage change | Absolute change | Percentage change | Absolute change | Percentage change |
| Agriculture | -3.24 | 41.07 | -2.24 | 27.92 | -0.20 | 4.05 |
| Industry | -0.47 | 6.02 | -0.41 | 5.13 | -0.30 | 6.11 |
| Services | -1.10 | 14.01 | -1.45 | 18.05 | -0.44 | 8.86 |
| Total intra-sectoral effect | -6.13 | 77.79 | -5.16 | 64.43 | -1.86 | 37.66 |
| Population shift effect | -2.09 | 26.57 | -2.93 | 36.63 | -3.18 | 64.48 |
| Interaction effect | 0.34 | -4.37 | 0.09 | -1.06 | 0.11 | -2.14 |

*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

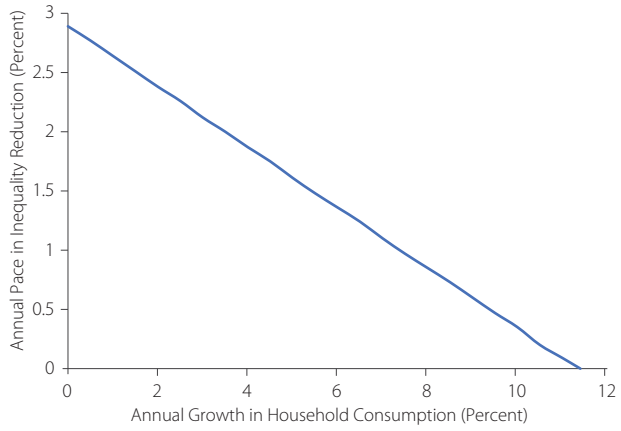
**Figure 37: Consistent sectoral elasticities for poverty pass-through**




*Source: World Bank*

**4.2.10. To eradicate poverty by 2030, a strong combination of both inclusive growth and redistribution will be needed.** Growth increases household consumption, while redistribution is a transfer of income / consumption between households affecting inequality. To achieve a poverty rate of 3 percent in 2030 without any redistribution, real household consumption would need to increase on average by 11.4 percent per year from 2015 to 2030. Without any growth in household consumption, inequality would need to be reduced by 2.9 percent per year. In a more realistic scenario, an average annual growth rate of 5.5 percent coupled with an annual reduction in inequality by 1.5 percent could eradicate poverty in 2030 (Figure 38). This is a much higher level of growth and inequality reduction than Kenya has demonstrated the past decade.

**Figure 38: Combination of growth and redistribution needed to eradicate poverty in 2030**



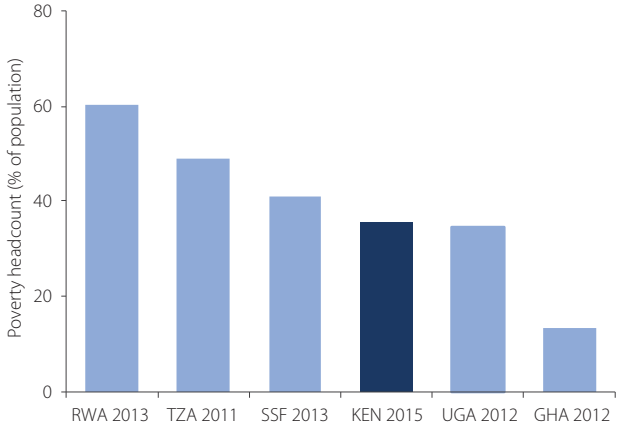

*Source: World Bank*

## 4.3 Poverty in International Comparison

**4.3.1. Poverty in Kenya is below the average in sub-Saharan Africa and is amongst the lowest in the East African Community.**[9] The poverty rate at the US$ 1.90 a day line in Kenya is nearly half the poverty rate of Rwanda in 2013 (60.4 percent). However, it is higher than poverty in Uganda (34.6 percent) and Ghana (13.6 percent), both measured in 2012 (Figure 39). When considering GDP per capita in constant PPP terms, poverty in Kenya is in line with expectations given the trend of poverty to GDP per capita in sub-Saharan Africa (Figure 40). Kenya's ratio of poverty to GDP per capita is close to that of the sub-Saharan Africa aggregate. Ghana and Uganda both have lower ratios of poverty to GDP per capita. However, it is important to note that Kenya has the most recent estimate for poverty (2015), which may bias its performance in comparison to countries with older poverty estimates such as Ghana and Uganda (both 2012).

**4.3.2. The depth of poverty at the international poverty line is in line with expectations.** The relationship between the poverty headcount and the poverty gap in Kenya conforms to the trend for sub-Saharan African countries (Figure 41). Kenya's poverty gap is close to that of Uganda (10.3 percent), but is notably higher than in Ghana (4.0 percent). The improvement in the poverty gap since 2005 suggests that many of the poor are close to reaching the US$ 1.90 a day consumption threshold. This reflects Kenya's notable reduction in poverty below the US$ 1.25 a day line since 2005.

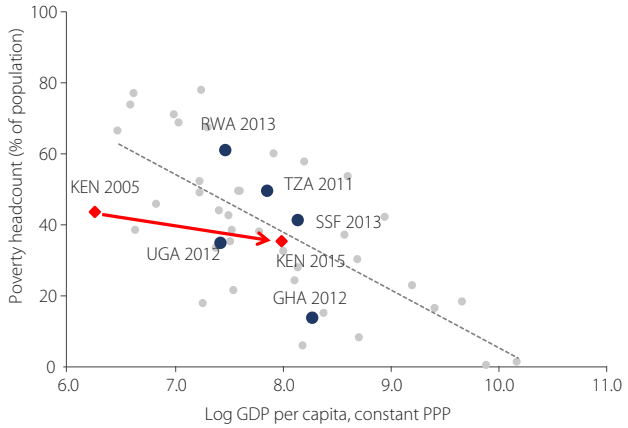
**Figure 39: International comparison of poverty**




*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

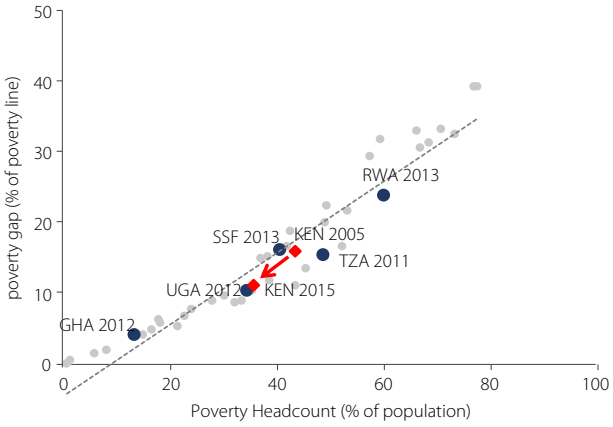
[9] *Four countries were selected for the international comparison due to geographic proximity, comparable population size and/or level of wealth: Ghana (GHA), Rwanda (RWA), Tanzania (TZA), and Uganda (UGA). The aggregate for sub-Saharan Africa (SSA) is also included as a regional benchmark. Tanzania has a GDP PPP per capita ($2,583) comparable to that of Kenya ($2,926), while Ghana ($3,980) is relatively wealthier. Rwanda ($1,774) and Uganda ($1,687) are both relatively poorer than Kenya. In terms of population, Tanzania (55.6 million) and Uganda (41.5 million) are similar in size to Kenya (48.5 million), whereas Ghana (28.2 million) and Rwanda (11.9 million) are notably smaller.*

**Figure 40: Poverty headcount against GDP per capita**




*Source: Kenya National Bureau of Statistics (KIHBS 2005 &2015) and World Bank*

**Figure 41: Poverty rate against depth at international poverty line**




*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

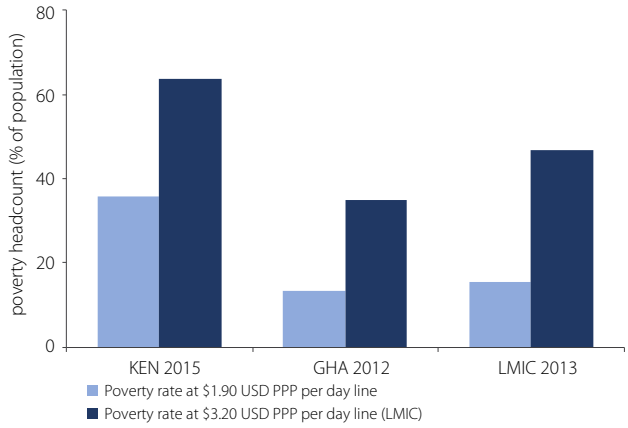
**4.3.3. When considering Kenya's lower middle-income class status, poverty is relatively high.** Poverty in Kenya is higher than the aggregate for LMIC countries, both at the US$ 1.90 and US$ 3.20 lines (Figure 42). Ghana provides an appropriate benchmark as it has a similar GNI per capita to Kenya (US$ 1,380). The poverty headcount in Ghana at the LMIC line (34.9 percent) is 28.8 percentage points less than that in Kenya. Poverty in Kenya is also much deeper at the lower middle-income class line than it is at the international poverty line. The poverty gap at the LMIC line is 27.5 percent (Figure 43), compared to 11.3 percent at the international poverty line. Kenya's depth of poverty at the LMIC line is substantially higher than Ghana and the LMIC aggregate (Figure 43).

**4.3.4. Returns to public spending could be significant.** For instance, only 2 percent of the total arable land in Kenya is irrigated compared to 6 percent in sub-Saharan Africa (SSA) and 37 percent in Asia. Recent studies show that for SSA economies returns to irrigation range from 17 percent for large scale farmers to 43 percent for small scale farmers, and can triple per capita farm incomes, with significant impacts on poverty reduction. Further, aggregate returns to research spending is 93 percent and ranges between 8-49 percent for extension services. Given the low level of resources devoted to such high return activities in the agricultural sector, there remains significant scope for Kenya to re-allocate resources to these areas to boost productivity in the sector.

## 4.4 Non-Monetary Poverty

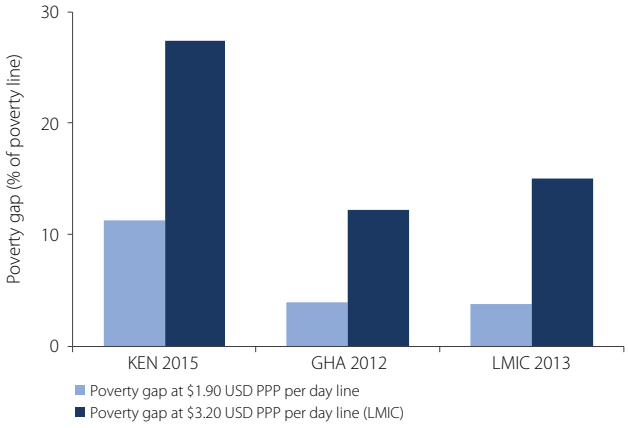
**4.4.1. Poor households are often deprived in multiple dimensions.** The most common type of deprivation is access to improved sanitation[10], which affects 40.7

**Figure 42: Poverty headcount at IPL and LMIC, international comparison**




*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

**Figure 43: Poverty gap at IPL and LMIC, international comparison**

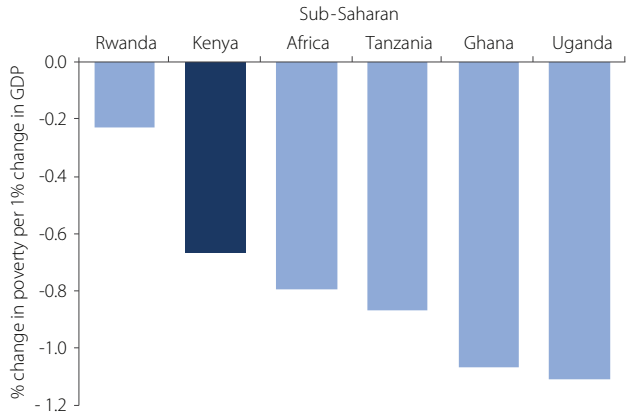



*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

[10] *Improved sanitation is defined as a toilet with a flush, a ventilated improved pit latrine or a latrine with a slab.*

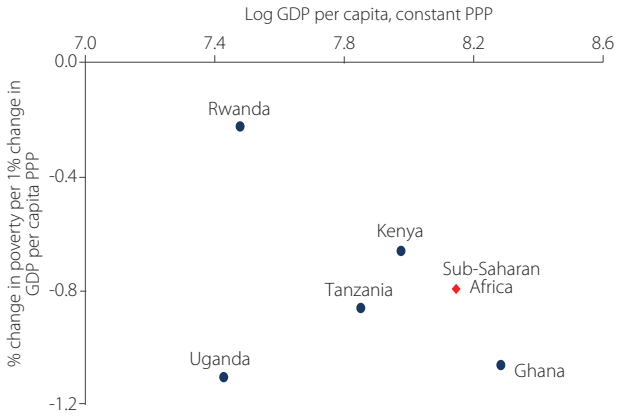
[11] *Improved drinking water sources are defined as a piped water system, public tap, borehole, protected dug well, bottled water or water from rainwater collection vendors.*

**Figure 44: International comparison of elasticity of poverty reduction**




*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

**Figure 45: Elasticity of poverty reduction against GDP per capita**




*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

percent of Kenyan households. The second most common deprivation is monetary, defined as a daily consumption expenditure below US$ 1.90 in 2011 PPP. Monetary deprivation affects 35.6 percent of households. Lastly, 28.2 percent of households lack access to improved drinking water sources[11] (Figure 46).

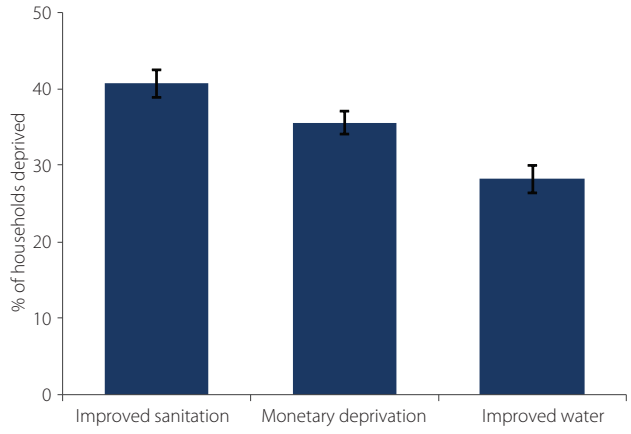
**4.4.2. Kenya's Human Development Index (HDI) has improved since 2005, but Kenya is still lagging behind Ghana.** The HDI is an index measured by the United Nations Development Program (UNDP) in the annual Human Development Report. The index measures progress along three dimensions: education, inequality, and life expectancy. Kenya has made progress in human development since 2005, gaining 0.07 points in the HDI, reaching 0.55 in 2015. This places Kenya at the top of the EAC, but it is still behind Ghana (0.58). Given Kenya's poverty rate, its level of human development is relatively high (Figure 47), indicating that Kenya performs better on non-monetary dimensions of poverty.

**4.4.3. Kenya has a relatively high level of access to improved sanitation, but lags behind in access to improved water.** Though progress has been made in improving access to improved water since 2005, Kenya still lags behind other countries in the international comparison. Only 71.8 percent of Kenyan households have access to improved water sources. This is below the level of peer countries like Ghana, Rwanda and Uganda. Kenya's rate of improved water is close to the average for sub-Saharan Africa (68 percent) however, and is in line with its level of poverty (Figure 48). Kenya performs much better in access to improved sanitation compared to countries with a comparable poverty headcount (Figure 49).

## A. Literacy and Education

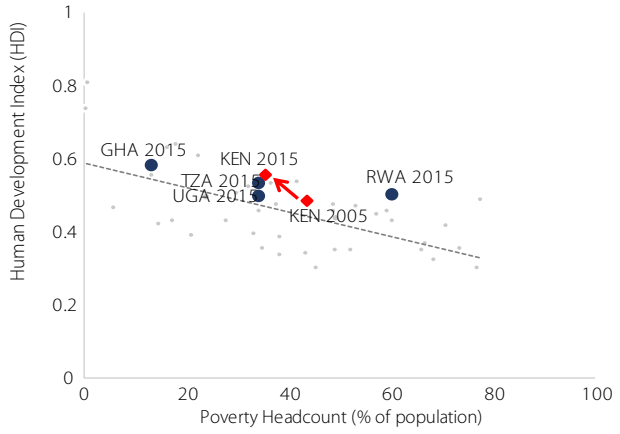
**4.4.4. Kenya's adult literacy rate is among the highest in Africa.** In 2015, 84 percent of the population above 15 years and over could read and write in any language, a larger proportion of the population than in a country like Ghana (71 percent), which has a much lower poverty rate

**Figure 46: Deprivation in access to services, 2015**



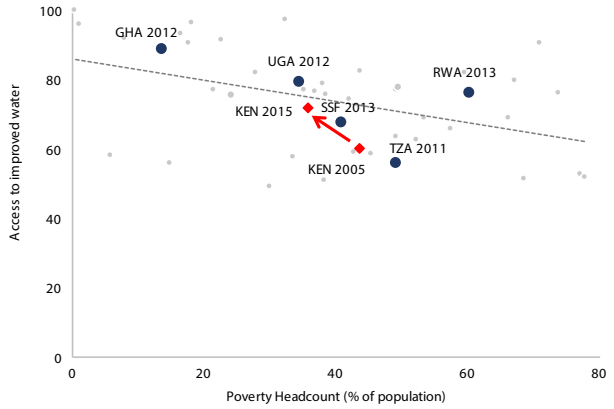

*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

**Figure 47: Poverty headcount against HDI**




*Source: UNDP HDI*

**Figure 48: Poverty headcount against access to improved water**



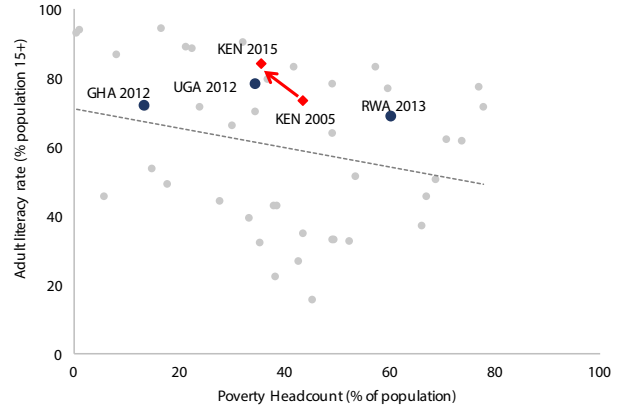

*Source: Kenya National Bureau of Statistics (KIHBS 2015) and World Bank*

**Figure 49: Poverty headcount against access to improved sanitation**


*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

(Figure 50). The literacy rate increased by 11 percentage points since 2005, reflecting the progress in enrollment in Kenya over the past decade. This is in line with results from standardized tests suggesting that Kenyan children have somewhat better learning outcomes in primary school than children in other countries in the region[12].

**Figure 50: Poverty headcount against literacy rates**




*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

**4.4.5. In line with increasing enrollment rates, levels of educational attainment among the adult population have increased.** Over half (57.8 percent) of all Kenyan adults above the age of 24 have completed primary education. This marks a notable increase from 2005 (44.2 percent). Adult primary educational attainment is high compared with countries that have a similar poverty rate (Figure 51). However, Kenya's rate of adult primary school completion is lower than in Ghana and Tanzania. When considering higher levels of educational attainment, Kenya performs worse (Figure 52). Only 14.4 percent of adults aged 25 and older have completed secondary education. While this also marks a substantial improvement over 2005 when only 3 percent of Kenyan adults had completed secondary school, it is far below rates found in other countries with comparable poverty rates.[13]

**4.4.6. Kenya's net school enrollment rates have improved over the last decade.** The net primary school enrollment rate, the proportion of age-eligible children who are currently enrolled in primary, is estimated at 84.6 percent in 2015/16. This is lower than expected given Kenya's poverty headcount (Figure 53). Within the EAC, Uganda and Rwanda both have higher net enrollment rates. However, the net secondary school enrollment rate in Kenya is now the highest among countries of the EAC, at 42.2 percent[14]. It more than doubled since 2005 (21.0 percentage points) and is in line with expectations given Kenya's poverty level (Figure 54). Increases in secondary enrollment in recent years are expected to boost educational attainment among young adults in the near future.

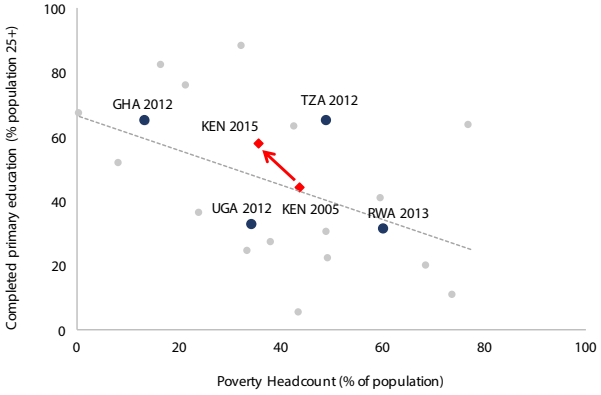
**4.4.7. Gains in secondary enrollment have been pronounced among both the poor and the non-poor; but significant gaps remain.** Between 2005/06 and 2015/16, net (gross) secondary enrollment has increased by 16.4 (29.2) percentage points among the poorest 20 percent and by 12.7 (34.5) percentage points among the top 20 percent, suggesting broad-based improvements in access to secondary education. However, while the gross enrollment ratio in 2015/16 was greater than 100 percent for the top 20 percent, it was only 44.6 percent among the bottom 20 percent.

[12] *Sandefur, Justin (2017): International comparable Mathematics Scores for Fourteen African Countries. Economics of Education Review.*

[13] *The results might exaggerate differences as primary education in Kenya is eight years but only seven and six years in Tanzania and Ghana. Kenyan primary school children also score higher on standardized tests than Tanzanians.*

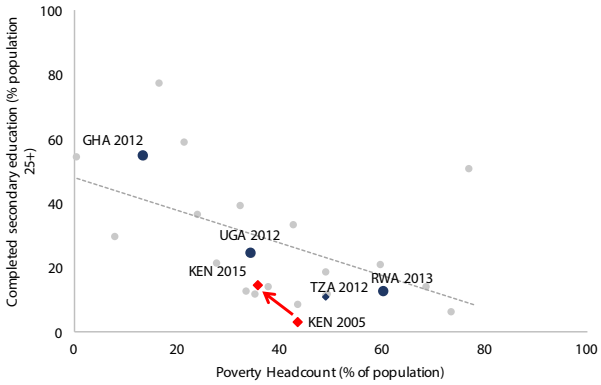
[14] *The net secondary school enrollment rate is similarly defined as the ration of secondary school-aged children who are currently enrolled in secondary school to the population of all secondary school-aged children.*

**Figure 51: Poverty headcount against adult educational attainment, primary**



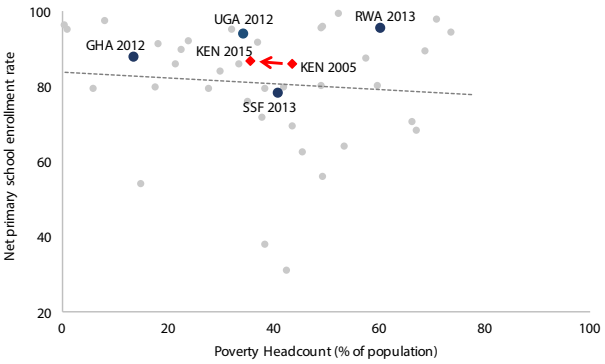

*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

**Figure 52: Poverty headcount against adult educational attainment, secondary**



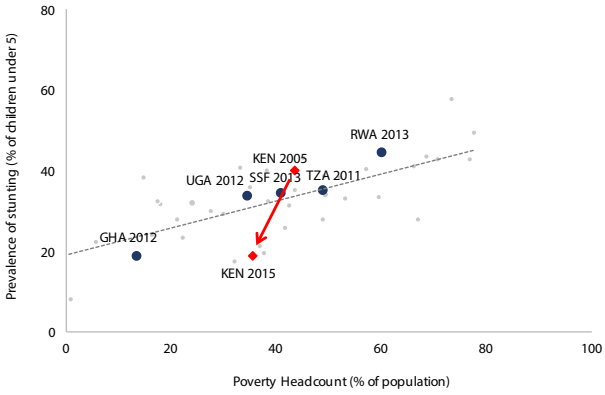

*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

**Figure 53: Poverty headcount against net primary school enrollment**




*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

**Figure 54: Poverty headcount against net secondary school enrollment**




*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

## B. Health

**4.4.8. Under-five mortality has declined rapidly in recent years, particularly among the poor.** Mortality among children below the age of five has declined from 114.6 deaths per 1,000 live births in 2003 to only 52.4 in 2014. This decline has been driven mostly by the increased provision and uptake of low-cost, high-impact measures, particularly the use of insecticide-treated bed nets (ITNs) that protect children from contracting malaria.[15] The decline has been particularly pronounced among children from poorer families and those residing in rural areas; in fact, differences in mortality between the bottom 40 percent and the top 20 percent[16] and rural and urban children were not statistically significant in 2014.

**4.4.9. Kenya has also made substantial gains in reducing child stunting; it now has one of the lowest stunting rates in the region.** Stunting is defined as a height-for-age z-score that is more than two standard deviations below the median of a reference population.[17] As of 2015, nearly 1 out of every 5 children under the age of 4 (24.4 percent) is stunted in Kenya. While this is the lowest stunting rate among countries of the EAC, it is still higher than in Ghana. When considering Kenya's level of poverty, the rate of stunting is lower than expected (Figure 55). The prevalence of child stunting has substantially improved since 2005, when 40.1 percent of Kenyan children were stunted.

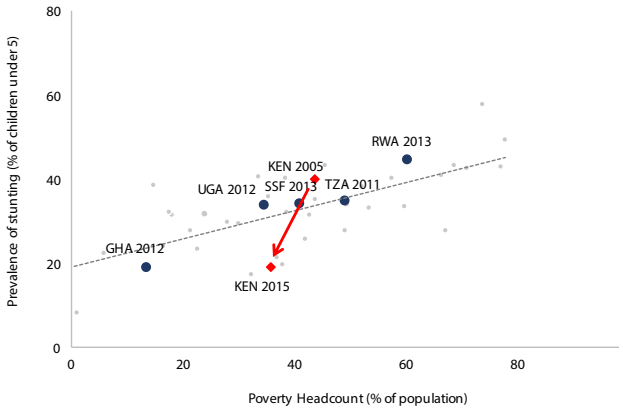
**4.4.10. The rate of children immunized against measles has improved in the past decade.** The percentage of children aged 12 to 23 months vaccinated against measles increased from 72.5 percent in 2003 to 87.1 in 2014. Kenya performs better than expected given its level of poverty, but still lags behind comparison countries Rwanda (95.2 percent) and Ghana (89.3 percent).

[15] *The share of children under the age of five that sleeps under an ITN increased from only 4.6 percent in 2003 to 54.3 in 2014.*

[16] *The statement is based on comparisons across quintiles of a wealth index that uses assets to proxy the material standard of living, not consumption expenditures.*

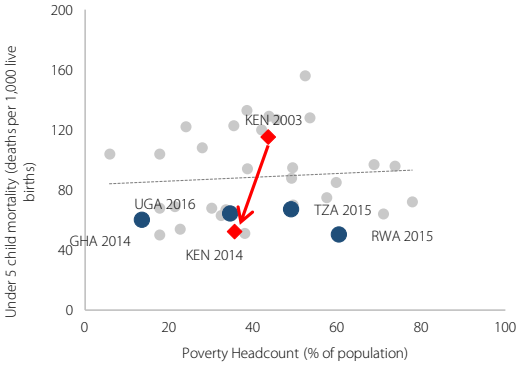
[17] *The reference used here is that of the World Health Organization.*

**Figure 55: Poverty headcount against child stunting**




*Source: Kenya National Bureau of Statistics (KIHBS 2005 & 2015) and World Bank*

**Figure 56: Poverty headcount against under five mortality**




*Source: USAID DHS*

## 4.5 Conclusion

4.5.1. **Poverty declined in Kenya over the last decade, especially among households engaged in agriculture, but these remain vulnerable to climate and price shocks.** Increased consumption among the poorest of the poor has reduced the depth of poverty in the past decade, but progress among the population living between the US$ 1.90 and US$ 3.20 poverty lines was considerably less pronounced. Growth in the agriculture sector accounted for the largest share of poverty reduction, but also revealed a vulnerability to shocks like droughts that can force households back into poverty. Building resilience against shocks can help to avoid recurrent spells of poverty.

4.5.2. **With similar progress in poverty reduction as observed in the last decade, Kenya will not be able to eradicate poverty by 2030.** Poverty reduction is driven by a growth and a redistribution component. Even though Kenya had experienced moderate GDP growth in the last decade, transmission of growth to increased consumption of households is low. Therefore, GDP growth did not translate into higher poverty reduction than observed. Furthermore, redistribution in Kenya is limited, thus, constraining overall poverty reduction. To accelerate the pace of poverty reduction, Kenya will require higher and more inclusive growth rates coupled with a sharper focus on poverty reduction policies.

4.5.3. **Kenya's compares favorably in monetary and non-monetary poverty with peer countries, but not yet with other lower middle-income countries.** Poverty in Kenya is below the average in sub-Saharan Africa and is amongst the lowest in the East African Community. However, Kenya's poverty incidence remains relatively high when considering Kenya's recently gained lower middle-income status. Kenya's HDI has improved since 2005, but still has space for further improvements. Access to improved sanitation is relatively high while access to improved water is lagging. Kenya's literacy rate is amongst the highest in Africa but secondary school completion presents a significant barrier. Kenya has also made substantial gains in reducing child stunting and children immunization against measles and has one of the lowest stunting and immunization rates in Africa. Thus, Kenya has made considerable progress but further gains will be needed to reach comparable levels with other lower-middle income countries.

4.5.4. **Poverty has a significant spatial dimension that is omitted in the international comparison.** Already in 2005, most poor in Kenya lived in rural areas, especially in the Northeastern parts of the country. As the March 2018 KNBS Basic Report on Well-Being in Kenya indicates, poverty is spatially concentrated and there is considerable variation across Counties in Kenya. Poverty and social protection programs must be targeted adequately to ensure efficiency and equity. This requires continued effort on a spatial dimension to socio-economic policy to tackle specific needs for selected parts of the population.

4.5.5. **The forthcoming World Bank Kenya Poverty and Gender Assessment (KPGA) will provide a more detailed analysis combined with policy recommendation for poverty reduction.** Using the KIHBS 2015/16 survey, the KPGA will provide a more detailed analysis of poverty characteristics and trends

in Kenya, incorporating sectoral and spatial lens. The KPGA will also zoom into the gender aspects of poverty, contrast poverty profiles in urban and rural areas, and examine poverty through education, health and social protection lenses. The objective of the KPGA is to foster an evidence-based debate about policy options to accelerate poverty reduction in Kenya.

**4.5.6. The decade-long gap between the two most recent household consumption surveys makes it difficult to monitor poverty reduction and analyze the impact of policies.** While Kenya's most recent household consumption survey was implemented in 2015/16, the previous survey dates back one decade to 2005/06. Even though simulations can attempt to track poverty, they are based on strong assumptions and inherently retrospective. Therefore, progress in poverty reduction cannot be monitored closely and timely, neither can policies and programs be designed based on up-to-date data and their impact be assessed. As this undermines efforts to effectively and efficiently reduce poverty, an improved monitoring system should be put in place. The plans to establish a continuous household survey by the KNBS are very timely.

# SPECIAL FOCUS I: ANNEX 1

**Annex 1: Poverty trajectory simulation, sectoral and non-sectoral growth**

| Year | GDP sectoral growth simulation | | | Overall GDP growth simulation | | |
|---|---|---|---|---|---|---|
| | Poverty rate, $1.25 a day | Poverty rate, $1.90 a day | Poverty rate, $3.20 a day | Poverty rate, $1.25 a day | Poverty rate, $1.90 a day | Poverty rate, $3.20 a day |
| 2005 | 22.7 | 43.6 | 68.7 | 22.7 | 43.6 | 68.7 |
| 2006 | 21.5 | 42.9 | 68.2 | 21.7 | 43.1 | 68.2 |
| 2007 | 20 | 41.8 | 67.6 | 20.4 | 42.1 | 67.5 |
| 2008 | 20.9 | 42.2 | 67.7 | 20.4 | 42.1 | 67.5 |
| 2009 | 21.3 | 42.4 | 67.5 | 19.7 | 41.6 | 67.3 |
| 2010 | 18.8 | 40.6 | 66.7 | 18.3 | 40.3 | 66.5 |
| 2011 | 18.2 | 39.6 | 66.1 | 17.5 | 39.2 | 66 |
| 2012 | 17.6 | 38.7 | 65.6 | 17 | 38.5 | 65.5 |
| 2013 | 16.7 | 37.8 | 65 | 16.2 | 37.5 | 64.8 |
| 2014 | 15.9 | 36.5 | 64.5 | 15.6 | 36.5 | 64.3 |
| 2015 | 15 | 35.3 | 63.9 | 14.8 | 35.6 | 63.6 |

# Part 3: Special Focus II

Policy Options to Advance The Big 4


Photo: © Mumias Sugar Company

# 5. Policy Options to Advance The Big 4

## 5.1 The Big 4 – an ambitious development agenda

5.1.1. **The Big 4.** The Government of Kenya has outlined four big priorities over the next five years, also known as the Big 4. These are food security and agricultural productivity, affordable housing, increased share of manufacturing, and universal health coverage. The attainment of these goals should help advance the Vision 2030 agenda – helping Kenya to move forward towards a middle-income economy with a high standard of living.

5.1.2. **Support from the public and more importantly the private sector will be required to achieve the Big 4.** This section proposes specific macroeconomic and structural policy reforms options that could be part of the policy mix in support of the advancement of the Big 4. Underpinning the proposed policy reforms is the view that for the Big 4 to be realized support from both the public and the private sector will be required. Given narrowing of fiscal space and the extent of resources needed to achieve the Big 4, the public sector could play the important role of creating a conducive environment to catalyze private sector resources to achieve the Big 4. Public sector resources devoted to the Big 4 would need to be contained within a fiscally sustainable resource envelope and should seek to reduce inefficiencies in spending in order to maximize impact.

5.1.3. **This chapter proposes policy options that could support the attainment of the Big 4.** The chapter is divided in two main sections. The first section focuses on policy options that will safeguard macroeconomic stability -a foundational requirement to re-ignite private sector dynamism and to crowd in private investment to the Big 4. The second section, considers specific policy options in the agriculture, health, manufacturing, and affordable housing sectors, which if, implemented could bring significant progress towards the realization of the Big 4.

## 5.2 Policies to create an enabling macroeconomic environment to support the Big 4

5.2.1. **A stable macroeconomic environment is foundational to sustaining robust growth and advancing the Big 4**. Without macroeconomic stability the ability of Government to allocate resources to the Big 4 or for the private sector to contribute to the Big 4 will be seriously constrained. Indeed, much of the robust growth performance of Kenya in recent years has been underpinned by the stability of its macroeconomic environment. Given the narrowing of the fiscal space in recent years, advancing the Big 4 calls for the rebuilding of fiscal buffers to safeguard macroeconomic stability as well as create the fiscal space to help drive Big 4 areas. Fiscal consolidation is recognized in the Budget Policy Statement where the deficit is projected to decline to 7.2 percent in FY 2017/18 and continue steadily on the path of consolidation to 3.0 percent by (FY 2020/21). However, for this to occur, reforms to domestic revenue mobilization, expenditure rationalization and improvements in debt management will be are required.

5.2.2. **The quality of fiscal consolidation matters for advancing the Big 4.** While fiscal consolidation is important, of equal importance, in particular if the Big 4 is to be advanced, is the quality of fiscal consolidation. In other words, fiscal consolidation will need to be carried out in a growth-friendly manner and with equity considerations safeguarded. A mixed strategy is generally desired when consolidating. On the revenue side, targeting eliminating tax leakages and broadening the tax base are some desirable measures that could be used to raise revenue in a growth friendly manner. On the expenditure side, eliminating inefficiencies in public spending, while re-allocating funds to can enhance private sector productivity and raise physical and human capital to increase the long-term growth potential of the economy could lead to desired outcomes. The following section outlines specific policy options for ensuring a stable macroeconomic environment.

### Macro Fiscal Policies to Support the Big 4

#### A. Improve Domestic Revenue Mobilization to Provide Fiscal Space

5.2.3. **Revenue measures that can help recreate fiscal space in support of the Big 4.** Rationalize the Tax Exemption regime. The special focus of the previous edition of the Kenya Economic Update shows that there remains significant scope to boost domestic revenue

mobilization. Indeed, with tax exemptions estimated at some 5 percent of GDP, plugging these leakages can play an important role in helping to rebuild fiscal buffers while creating some fiscal room to address some of the Big 4 agenda items – for instance targeted provision of Universal Health Care subsidies to the informal sector is estimated at 0.6 percentage points of GDP (see table 4 on options for achieving Universal Health Coverage section). For this to occur the ongoing FY 2018/19 budget should seek to include sunset clauses to allow a significant number of tax exemptions (which are not core to the Big 4) to expire over the short to medium term.

**5.2.4. Implement a Governance Framework on tax exemptions that will prevent the creep up of tax incentives.** The elimination of non-Big 4 priority tax exemptions could help boost domestic revenue mobilization. However, to avoid future creeping of exemptions it would be important for a governance framework to be adopted. This could seek to strengthen the role of National Treasury to be the solitary institution for the granting of exemptions. Further to improve transparency, all tax expenditures should be published as part of the Budget and a fiscal objective could be included in the framework that limits the maximum amount of tax exemptions that can be provided.

### B. Expenditure Measures to Support a Growth Friendly Consolidation Pathway

**5.2.5. Expenditure measures are needed to complement revenue measures.** While boosting domestic revenue mobilization remains integral to the policy mix in recreating fiscal space to support the Big 4, it cannot shoulder the entire fiscal consolidation load. A slowdown in the pace of fiscal expansion is of necessity to safeguard fiscal and macroeconomic stability. The 2018 Draft Budget Policy Statement recognizes this, given that compared to an annual growth rate of 17.5 percent observed over the past four years, the projected growth in total public spending is expected to adjust downward to 11.7 percent over the next four years. Nonetheless, while the pathway to reducing the pace of overall spending over the medium term is commendable, to achieve it will require some difficult choices.

**5.2.6. Rationalizing recurrent expenditures.** Growth friendly fiscal consolidation entails greater downward adjustment on recurrent spending and lesser so on the capital spending in order not to undermine the underlying growth potential of the economy. However, much of the consolidation from the expenditure side is coming from development spending, thereby suggesting that there remains scope for recalibrating Kenya's pathway for fiscal consolidation. As discussed in previous Kenya Economic Updates specific areas of recurrent spending include, wages and salaries, and reforming State-Owned Enterprises. This could lead to potentially significant public-sector savings that help rebuild fiscal buffers while creating some fiscal room to advance the Big 4, particularly in the agriculture and health sectors where spending in Kenya lags behind international benchmarks.

**5.2.7. Beyond rationalizing expenditures, improving efficiency in public spending could help realize significant fiscal savings across sectors.**

- Despite increased spending on infrastructure which is expected to complement private investment, the contribution of net investment to GDP growth remains weak, reflecting weakness in private investment and raising questions on the efficiency of public investment. Furthermore, growth in Kenya's total factor productivity (TFP), though rising, is well short of productivity growth in other Sub-Saharan economies such as Rwanda, Ethiopia and Ghana. An earlier Kenya Economic Update (November 2016) finds that the causes of low efficiency of investment can be attributed to weakness in the system of public investment management (PIM), particularly project appraisal, selection and management. Furthermore, the process of land acquisition poses a unique challenge.
- In education spending where on average about 90 percent of expenditure is recurrent, there is scope for efficiency gains through improved teacher management to address the uneven pupil-teacher ratio. Indeed, the apparent shortage of teachers in some counties could be addressed by considering the option to re-allocate the existing stock of teachers from over supplied areas towards more deprived areas, after which new recruits could be considered to fill in gaps. Further, given over 70 percent of secondary schools have less than 400 learners compared to a target of at least 540 students there appears to be scope for savings in regulating the opening of new schools, save for counties that have historically low levels of enrollment rates and expansive distances to nearest school.

Expenditures on the opening of new schools could be rationalized by placing a moratorium on the opening of new primary and secondary schools until the national target is reached, particularly in high population density areas and an already high enrollment rate.

- Another potential area for efficiency gains could be in the health sector. Kenya spends double the per capita health spending of EAC peers yet health outcomes (under five mortality, maternal mortality, percent living with AIDS, life expectancy) are no better than that of other EAC countries.

5.2.8. **Current plans to safeguard equity considerations despite fiscal consolidation are commendable.** While restraining recurrent spending it is important to factor in equity considerations and preserve and protect the poorest and vulnerable in society. In this regard, it is commendable that under the projected fiscal consolidation pathway the government intends to expand its social protection program — doubling the number of vulnerable citizens (elderly, disabled, and orphans) supported through cash transfers and the provision of health insurance coverage for citizens above the age of 70.

### C. Improving Debt Management

5.2.9. **Creating fiscal space to support the Big 4 calls for reining in the rising debt service payments (interest and amortization) to open up some fiscal room to support the Big 4.** To do so will require an ambitious fiscal consolidation plan that targets a primary surplus. Being a bit more ambitious on the primary surplus target will help to put a lid on the rising stock of debt and by extension the rising interest payments.

5.2.10. **Debt management could support lower yields on government securities, and thereby crowd in the private sector.** Given the central role of the private sector in achieving the Big 4, it is imperative that the benchmark government yields drop to levels that incentivize banks to lend to SME's — the backbone of the economy. Hence the debt management strategy could consider a level of borrowing in the domestic market that is commensurate with crowding in of the private sector. For instance, the current domestic borrowing can be lowered to help drive down yields on government securities to levels seen in 2010 (about 3-5 percent range), when the contribution of private investment to GDP growth was at a high, in contrast to negative growth observed over the past two years.

5.2.11. **Other debt management measures that could be supportive include a steady lengthening of the maturity profile of government debt securities.** The successful issuance of a 30-year Eurobond is commendable as it lengthens the maturity profile of the debt structure. Further, addressing implementation challenges that holds back the disbursement of significant concessional funds from official sources. sed. (Further, the large Kenyan diaspora remains an untapped pool of savings/ source). A funding source that is likely to be cheaper and less influenced by market conditions compared to the traditional commercial sources (e.g. of countries that have or are moving in this direction).

### D. Restore the Potency of Monetary Policy to Help Re-ignite Private Sector Lending

5.2.12. **Restore potency of monetary policy and create a conducive environment that incentivizes banks to lend to the private sector.** In recent years, while the contribution of the public sector to economic activity has remained robust, while that of the private sector has been remarkably subdued. The Big 4 is unlikely to be achieved without the participation of a dynamic and healthy private sector. Indeed, whether it is improving agricultural sector productivity, increasing manufactured exports, building affordable housing units or providing quality health services, the private sector can and should play an out-sized role. To achieve this, an important role to be played by government is to create a conducive environment to incentivize the private sector in the delivery of the Big 4. Notwithstanding the green shoots of a recovery in private sector activity, demand pressures remain subdued and a robust private investment driven growth is yet to take hold. Unshackling monetary policy, an important lever in the policy toolkit, by removing the interest rate cap should allow it to better respond to the slack in the economy. As discussed in detail in the December 2017 KEU, the removal of the cap also needs to be supported by complementary macroeconomic (e.g. lower deficit and lower benchmark rates) and microeconomic (e.g. improve universal credit scoring, implement moveable asset registry etc.) measures to help boost private sector credit.

## 5.3 Structural Policies in support of the Big 4

5.3.1. **While prudent macroeconomic policies are necessary to lay down an appropriate foundation for the Big 4, they will be insufficient to realize these goals.** Critical sectoral and structural policy reforms will be required

to actualize the Big 4. This section seeks to articulate a policy agenda that could be supportive of each of the Big 4 areas, while not compromising macroeconomic and fiscal sustainability. This section deliberately focuses on policy measures (rather than specific investments) that could help create the enabling environment for the resources of the economy (both public and private) to move in support of the Big 4. The measures proposed represent some early thinking on some key policy measures that could help move the needle forward in the quest to achieve the Big 4.

### Pillar I: Agricultural Productivity and Food security

5.3.2. **The Agriculture sector is one of most important sectors of the Kenyan economy, yet productivity remains disappointingly low.** Agriculture contributes about 51 percent to GDP: 26 percent directly and another 25 percent indirectly. Consequently, the sector remains a major driver of the Kenyan economy, with years of strong agricultural sector growth reflecting in overall GDP growth and vice-versa. Further, the sector accounts for some 60 percent of employment and 65 percent of the country's exports. Yet notwithstanding this, productivity in the sector remains low, particularly in grains: indeed, yields per acre/hectare of maize, Kenya's main staple was lower in 2014 (1628 kg/ha) than in 1994 (1918 kg/ha). Given low levels of productivity in the sector and a growing population, there remains a structural food deficit (and adds to the trade deficit) which contributes to the trade deficit, food insecurity and poor nutritional outcomes. Compounding the challenges in the sector is the increasing vulnerability of the sector to adverse weather conditions, unfortunately has been occurring with increasing frequency. Further, as noted in the special focus section on Poverty, most of the poor are employed in the agriculture sector, hence addressing the binding constraints to productivity in the sector should go a long way in accelerating the pace of poverty reduction, as well as reducing food insecurity and boosting overall growth and employment.

### Policies to Support Increased Agricultural Sector Productivity and Improve Food Security

#### A. Re-allocate more resources to the agricultural sector

5.3.3. **Re-allocate more resources to high-return public goods in the agricultural sector.** While the agriculture sector contributes some 25 percent to GDP and over 60 percent to employment, less than 2 percent of total expenditures in FY 2016/17 were allocated to the sector in Kenya. This is well short of the 4.5 percent average in sub Saharan Africa and the recommended 10 percent agreed to under the AU Malabo Declaration. Productivity growth in Kenya's agriculture sector, especially for small scale farmers is hindered by lack of access to public goods, such as rural roads, rural electricity, irrigation, improved seeds and breeds, regulatory and extension services. The weak growth in agricultural productivity growth in Kenya contrasts with productivity growth in Ethiopia, where spending on agriculture has been boosted in recent years (Box B.2).

Photo: © Dasan Bobo/World Bank

*Boosting agricultural productivity and food security will require re-allocating more resources to agriculture and improving the efficiency of current spending in the sector.*

5.3.4. **Returns to public spending could be significant.** For instance, only 2 percent of the total arable land in Kenya is irrigated compared to 6 percent in sub-Saharan Africa (SSA) and 37 percent in Asia. Recent studies show that for SSA economies returns to irrigation range from 17 percent for large scale farmers to 43 percent for small scale farmers, and can triple per capita farm incomes, with significant impacts on poverty reduction. Further, aggregate returns to research spending is 93 percent and ranges between 8-49 percent for extension services. Given the low level of resources devoted to such high return activities in the agricultural sector, there remains significant scope for Kenya to re-allocate resources to these areas to boost productivity in the sector (Goyal and Nash, 2017).

5.3.5. **Yet not all public spending in the agriculture sector is productive.** In some cases, public spending in the agriculture sector can be counterproductive or even reduce productivity. Studies show that public spending on public goods (e.g. research and development, extension services etc.,) are much more productive and tend to reduce poverty more than public spending on private goods (e.g., fertilizer subsidies). Indeed, when governments provide private goods they end up displacing a more efficient provider of the good — the private sector. Unfortunately, much of agricultural spending in Kenya is skewed towards the provision of private goods, rather than public goods. Hence this calls for the need to revisit how efficiency gains can be actualized from the current agricultural sector resource envelop.

## To Improve the Efficiency of Spending, Critical Policy Constraints Need to be Addressed

### B. Key Policy Questions to be Addressed to advance Agricultural Sector Productivity

5.3.6. **Is the fertilizer input subsidy program working in the interest of small scale farmers?** The lack of modern input use has been identified as one of the main reasons agricultural productivity growth has lagged behind. Targeted input subsidy programs that are able to raise small holder crop productivity remains critical to raising overall productivity in the agricultural sector. In Kenya studies show that the current untargeted and regressive fertilizer input subsidy scheme apart from being costly, disproportionately benefits large and medium sized farmers and crowds-out private investment in the purchase and distribution of fertilizers. This suggest there is scope for agricultural productivity gains through the implementation of a smart subsidy (better targeted) scheme. Indeed, impact evaluations suggest that a previous smart subsidy programs — Kilimo Plus — which targeted resource poor small holder farmers succeeded in raising their yields, increasing incomes and reducing food insecurity (Mason *et al*, 2015).

5.3.7. **Does the producer subsidy scheme in maize enhance food security?** First, studies show that price support to maize farmers is regressive as it benefits large and medium sized farmers and small farmers who are located close to the storage depots. Second, the artificially higher maize prices, induced by the producer subsidy, also serves as a tax on consumers, including to poor households, many of whom are net buyers of maize — the main staple food. Further, the higher price of maize creates an adverse incentive structure encouraging farmers to grow maize on marginal lands, when drought resistant crops might have been more suitable, thereby depleting natural resources and compromising food security (Kamau *et al*, 2012; World Bank, 2015). Given these adverse environmental and social-economic consequences, and its exorbitant fiscal cost, there remains significant scope for reform. Specifically, the re-allocation of public spending from supporting producer subsidies to investing in high return public goods (R&D, advisory or extension services, rural infrastructure — roads and irrigation etc.) to boost agricultural productivity.

**Box B.2: Ethiopia Box- Case Study**

**Budgetary allocations to the agriculture sector are among the highest in Africa, close to 13 percent on average from 2003-14 period, almost of which is spent on extension.** The government has devoted significant resources to expanding extension services in Ethiopia, and there is currently one extension agent for every 472 farmers (in SSA the ratio is 1:3000-4000) — which is one of the highest ratios in the world.

**The high levels of spending on agriculture appear to have paid off.** This has aided high rates of inclusive agricultural sector growth experienced in Ethiopia in the 2000s (Bachewe *et al.* 2015), consequently driving poverty reduction in rural areas.

**5.3.8. Does the current seed policy support the wider distribution of good quality to small scale farmers?** Parastatals dominate the procurement of breeder seed; and multiplication and marketing of certified seeds, while at the same time regulating the seed industry. This perpetuates a situation where parastatals are both producers of limited quantities of early generation seed (EGS) needed by the private sector to produce certified seed for farmers; and regulators of the seed industry. Reforming the seed industry to allow for wider participation of the private sector could make improved seeds available to farmers, thereby boosting agriculture productivity.

**5.3.9. How can access to finance in the agricultural sector be enhanced?** Many farmers are often hindered in the purchase of productivity enhancing inputs (e.g., seed, fertilizer, pesticides etc.,) due to limited access to finance. Alliance for a Green Revolution in Africa (AGRA) and the Government of Kenya estimate that in 2015 the annual credit needs of key commodity chains amounted to KSh130 billion, whereas credit to the sector was only KSh 40 billion. One potential area of reform to help ease the situation could be through passing the warehouse receipts bill to allow farmers use the receipts as collateral. Improving the use of crop and livestock insurance as collateral would also be welcome as another way to increase agricultural credit.

**5.3.10. Introduce property taxes on agricultural land** to encourage the utilization of large tracts of fertile but idle agricultural land to increase access to land for smallholder farmers and to support the food security agenda. This has become pertinent given large tracts of idle arable land owned by absentee landlords, that go unused, pushing many smaller farmers to move into marginal lands.

**5.3.11. Climate proofing the agriculture sector.** Kenya is among the countries most susceptible to adverse weather conditions, facing such conditions with a frequency of about once every three years. Hence building resilience to climate change risks in the agriculture sector remains essential to boosting productivity growth. The December 2017 edition of the KEU discussed in detail some measures that can be taken to mitigate the impacts of climate on the agriculture sector. These included: increasing the adoption of drought resistant or tolerant varieties; investing in soil and water management; and providing timely climate and weather information services to farmers to improve their production decision-making.

### Pillar II: Universal Health Coverage

**5.3.12. Kenya is in a strong position to make rapid progress to expand health coverage given the high level of political commitment and strong institutional foundations.** Health insurance coverage is currently concentrated among formal sector workers (public and private sector), for which employee income-related contributions are automatically deducted from salaries. This population group, along with dependents, accounts for around 18 percent of the population and benefits from a generous benefit package. Approximately 70-80 percent of Kenya's population are currently not covered by health insurance. Most of the uncovered population are in the informal sector.

### Policies to Support Universal Health Coverage

**5.3.13. Some level of government subsidies will be required if Universal Health Coverage is to be realized.** Rapidly expanding health insurance coverage based on voluntary contributions of KSh 6,000 per annum (the current cover offered by NHIF for a family of 5) is likely to be exceedingly difficult, even with intensified marketing and awareness raising. These challenges are not unique to Kenya. Very few countries have achieved high levels of coverage of voluntary health insurance, despite significant effort. Where high coverage has been achieved, it has been the result of either high levels of government subsidies to reduce household contributions, or a degree of coercion (or both). Building on experiences from other countries, such as Thailand, China, Mexico and Ghana, achieving financial protection for universal health coverage, Kenya can consider different approaches to increase coverage.

**5.3.14. Though fiscally conservative, adopting a targeted subsidy could have high administrative costs.** In considering different options, it is important to note that although there is a targeting system in place (Social Protection Single Registry), it currently only covers around 10 percent of the population and would hence need to be significantly strengthened to support a target health insurance subsidy to a broader segment of the population. This would have cost implications and would take time (at least 1-2 years). The benefits of mobilizing contributions from the informal sector must then be weighed against the administrative costs associated with collection of contributions (and retention after original registration) and targeting subsidies.

*Kenya is in a strong position to make rapid progress to expand health coverage given the high level of political commitment and strong institutional foundations*

Photo: © Sarah Farhat /World Bank

5.3.15. **Various options for financing an expansion of government spending on health could be considered.** Notwithstanding the need for fiscal consolidation, as discussed in the first chapter, it is important to take into account equity considerations when considering the quality of fiscal consolidation. Hence, making progress towards universal health coverage, while rebuilding fiscal buffers is commendable. Creating the fiscal space to be able to support increased health coverage will require re-prioritization of current budget envelope, additional domestic revenue generation by addressing VAT and corporate tax exemptions, and new taxes and levies. Options for sharing the fiscal cost of subsidizing across central and local government as well as more effectively leveraging donor support during the initial phase could also be considered.

5.3.16. **Achieving Universal Health Coverage will require reforms to NHIF.** Finally, it will be critical that the expansion of health insurance is accompanied by continued and intensified efforts to strengthen NHIF systems and capacity, especially in the areas of costing benefit packages and provider payment mechanisms, and to address outstanding issues regarding the flow of funds to counties and public facilities, and their earmarking for use in the health sector. In addition, strong systems for monitoring and evaluation will be important to ensure that there is timely information about progress in financial protection, service coverage, utilization, and quality of care.

### Pillar III: Manufacturing Sector

5.3.17. **Given underlying demographic trends, it is imperative for economic growth to be driven by sectors with potential for high job creation, such as manufacturing.** The manufacturing sector holds such potential as evidenced in the millions that have been pulled from poverty in Asia. For this to occur, Kenyan manufacturing firms need to be competitive both domestically (competing against imports) and externally (both regionally and on the global front). Unfortunately, the share of manufacturing output in GDP and exports has been on the decline, reflecting competitiveness challenges. To reverse this decline and attain the Big 4 goal of raising the share of manufacturing and supporting value-addition will require policy measures on both the domestic and external front.

5.3.18. **Policies to advance manufacturing in Kenya need to adapt to the changing nature of global manufacturing.** A recent World Bank study finds that the location of future manufacturing hubs in the global economy will be disrupted by ongoing technological advances in "The Internet of Things", advanced robotics, and 3-D printing (World Bank, 2018). Indeed, it observes that the earlier labor cost advantage that successful manufacturing hubs in low and middle-income countries successfully used to attract foreign direct investment may no longer be sufficient for countries seeking to become

**Table 4: Options for Universal Health Coverage**

| Approach | Likely outcomes and issues |
|---|---|
| Fully subsidize health insurance for poor and vulnerable groups; no subsidies for others | • Requires robust systems for identifying poor and vulnerable, which is costly to establish and maintain<br>• Achieves full coverage of these groups<br>• Significant coverage gaps likely to remain for non-poor/ vulnerable |
| Partially subsidize everyone (e.g. central/county government pays 50 or 70 percent of KSh6,000 contribution and households pay remainder) | • Administratively simple and more affordable than full subsidy<br>• Likely to contribute to significant expansion of coverage, albeit with gaps<br>• Coverage may still be unaffordable for poor, with coverage gaps among this group |
| Fully subsidizing health insurance for poor/vulnerable; partial subsidies for others | • Requires robust systems for identifying poor and vulnerable<br>• Achieves full coverage of these groups<br>• Likely to achieve higher coverage among non-poor, albeit with some gaps<br>• More modest fiscal implications than fully subsidies for everyone |
| Fully subsidize everyone in the informal sector | • Everyone covered<br>• No identification of poor or cost of collection<br>• Subsidies will be costly |

the manufacturing hubs of the future. Given global trends, the study recommends that countries seeking to become the manufacturing hubs of the future to focus on the 3Cs — competitiveness, capabilities and connectedness. On the 3Cs scale Kenya is observed to be among the countries with low connectedness and capabilities but with medium level competitiveness. However, for Kenya to gain a solid footing into the global value chains in areas it has identified as priority, including textile and apparel, agro processing and leather products it will need to improve in all dimensions of the 3Cs (Figure 57). The policy recommendations suggested in this section seek to incorporate how the 3Cs can be addressed from both a domestic and external perspective.

## Policies to Support Raising the Share of Manufacturing Output

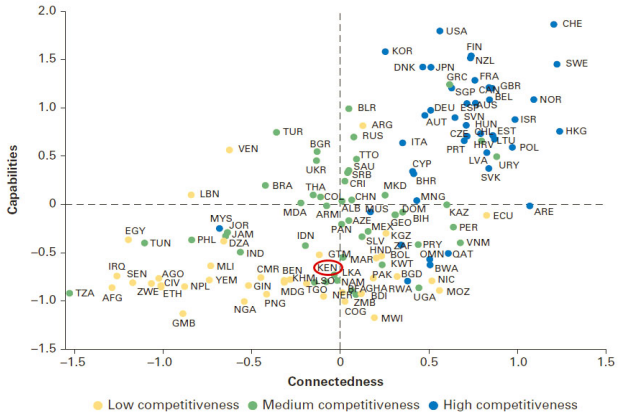
5.3.19. **On the domestic front, competitiveness can be enhanced through macroeconomic and microeconomic interventions.** At the macroeconomic level, a stable macroeconomic environment, with low inflation, stable and competitive real exchange rate and interest rate are critical as they influence the profitability of firm level operations. The policy measures earlier discussed to safeguard macroeconomic stability remain valid in providing a macroeconomic environment conducive for enhancing manufacturing activity.

5.3.20. **Nonetheless microeconomic policy interventions are also critical.** Over the past 3 years, Kenya has improved its ranking in the Ease of Doing Business ranking by some 50 places. Similarly, it has completed a railway between the two main commercial cities, added over 2000km in new roads and extended the national electricity grid. Nonetheless, this has not reversed the lackluster performance in the manufacturing sector. Often mentioned competitiveness disadvantages for Kenyan firms compared to regional competitors include higher unit cost of electricity, labor costs, government bureaucracy and corruption. The most recent Global Competitiveness Report lists the most pertinent competitive challenges facing Kenyan firms to be: corruption, tax rates, access to finance, government bureaucracy, inadequate infrastructure, labor costs, regulations and taxes (Figure 58). By one estimate, Kenya's factory floor productivity could be close to China's but when one accounts for costs such as transport, regulations, and taxes, Kenyan firms lose some 40 percent of their productivity advantage).[18] Hence, efforts to address these competitiveness concerns in Kenya will need to address these issues.

5.3.21. **The development of industrial enclaves with reliable infrastructure and procedures can help.** Given limited fiscal room, it will not be possible to address all these challenges at scale. However, a move to develop more Special Industrial Parks and Export Processing Zones

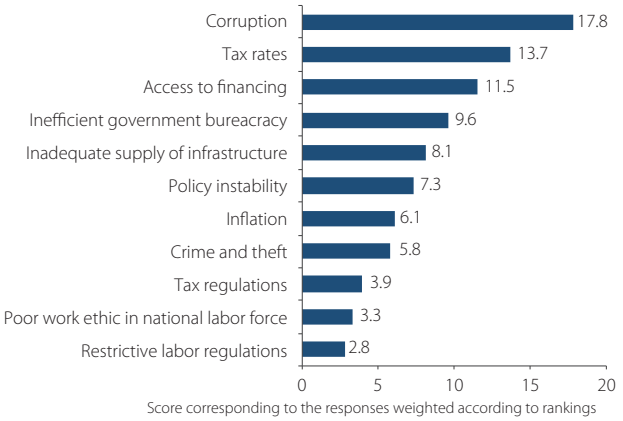
[18] *Guiseppe Larossi, 2009, Benchmarking Africa's Costs, in "Africa Competitiveness Report, 2009".*

**Figure 57: Country Distribution in Space of Competitiveness, Capabilities, and Connectedness, Circa 2012-14**




*Source: World Bank, 2018*

**Figure 58: Most problematic factors for doing business in Kenya**




*Source: World Economic Forum, Executive Opinion Survey 2016*

can help address these issues within selected localities, as is currently being undertaken in Ethiopia with some measure of success. This strategy could be complemented with enhanced commercial diplomacy and an aggressive marketing strategy to court foreign direct investors (multinational companies) into these special parks and zones. To maximize spillovers to the rest of the economy, it would be important to cluster university linked research institutes in these enclaves to facilitate knowledge sharing and technology adoption.

5.3.22. **To foster technology adoption, it will be important for worker and firm-level capabilities to be enhanced.** Developing worker level capabilities within the changing global context where job skills are increasingly becoming nonroutine and cognitive requires the need to prioritize literacy and numeracy, basic ICT (software engineering and coding), while also investing in the development of advanced skills for people with access to higher education. Further skills programs need to be offered to be responsive to industry, hence having private sector actors involved in the setting of curricula can be helpful. Beyond worker skills, the increasing need for more flexible manufacturing production processes and the autonomy for production and decision making, calls for the need to strengthen firm level capabilities by improving management and organizational practices that support the adoption of new technologies and international certification of quality standards (World Bank, 2018).

5.3.23. **On the external front, measures to strengthen regional integration and seizing opportunities under various preferential trade agreements can boost manufactured exports.** To further strengthen regional


Photo: © Ethan Lieu/World Bank

*Policy options to advance manufacturing in Kenya need could focus on the 3Cs - competitiveness, capabilities and connectedness*

trade (including with COMESA), there is a need to revisit some of the restrictive rules of origin and address other non-tariff barriers such as Sanitary and Phyto Sanitary (SPS) which affect food products (including processed foods) and technical barriers to trade and standards required for manufactured exports. There is the need to establish regional protocols on mutual recognition agreements to enhance trade in manufactured products. Further, addressing some of the bottlenecks to trade logistics, such as multiple border check points, cumbersome border clearance processes, and competition in the transportation sector will smoothen trade between countries in the region and elsewhere, thereby improving connectivity. The recent signing of the African Continental Free Trade Area provides further opportunities for increased market access for Kenyan firms beyond the traditional East Africa market. Beyond the regional level, there are immense opportunities for Kenya to seize benefits under the various preferential trade agreements with major trading partners including the US (AGOA), EU (EPA). Beyond, preferential agreements, however, Kenya could also pursue options to diversify its market into other non-traditional markets.

### Pillar IV: Increasing the Supply of Affordable Housing

5.3.24. **The housing deficit in Kenya is large and growing.** There is an estimated housing shortfall of 2 million units, and with an additional 500,000 new city dwellers every year, this is aggravating an already untenable situation where, 61 percent of urban households live in informal settlements (compared to 50 percent in Nigeria and 23 percent in South Africa). Indeed, many Kenyans are unnecessarily living in slum dwellings, because of limited supply and lack of affordability. Hence, there is a critical need to deliver housing at the lower end of the income spectrum. Given Kenya's growth and urbanization rates, the problem will only become more acute over the next decades without a serious focus on housing and the finance of housing for the average Kenyan. Indeed, outstanding bank mortgage loans in Kenya are fewer than 25,000 (corresponding to less than 0.3 percent of households in Kenya) and mortgage debt is only 3 percent of GDP (compared to, for instance, 32 percent in South Africa).

5.3.25. **Addressing this housing deficit will be good for economic growth, creating jobs, and deepening the financial sector.** Beyond the social benefit of addressing this basic human need, economically, it could be transformative as a growth engine. Unlocking the residential housing market through the development of the housing finance market can provide a wide range of income opportunities through the construction sector and related industries as evidenced in Columbia, India, and South Africa. In Colombia it is estimated that 5 additional jobs are added for every US$10,000 spent on housing construction. In India, each housing unit creates 1.5 direct and 8 indirect jobs; in South Africa, each housing unit creates 5.62 jobs for every housing unit. In Kenya, the government estimates that by supporting the building of some 500,000 affordable homes by 2022, it could create some 350,000 jobs. Indeed, by not addressing the housing deficit, particularly at the level of low income households, Kenya is missing a major opportunity for job creation and economic growth. Addressing this will help create a productive cycle of savings and growth by fostering increased construction and financing of affordable housing.

5.3.26. **In considering its role, the Government of Kenya should balance its fiscal capacity with its ability to create meaningful change in the housing sector.** The best approach at present would seem to be to rely on markets to provide funding while role of government is limited to improving access to land, providing basic infrastructure and improving credit environment. Over time as the system grows and becomes more relevant to middle and lower income households, some form of subsidy could be considered, targeted at the most needy.

### Policies to Support an Increase in the Supply of Affordable Housing

#### A. Address Supply-side Bottle necks to Housing Supply

5.3.27. **Measures to boost the supply of housing.** On the supply side cumbersome property registration processes, expensive land, and construction costs including the lack of access to serviced land are among the main factors that have held back the supply of affordable housing. Adopting the below measures may be supportive of reducing some of the supply-side bottle-necks in Kenya.

5.3.28. **Implement supporting regulations to Lands Act.** To increase the efficiency of land registration and unlock the ability of developers to build affordable units on a large scale, regulations are needed to be enacted to support the Land Act 2012 and Land Registration Act of 2012.

5.3.29. **Implement land records management.** Implementation of land records storage systems and regulations for electronic conveyance could boost title transfers significantly. At the same time, the establishment of a one-stop-shop for property registration.

5.3.30. **Amend the Sectional Properties Act.** Amending the Sectional Properties Act to allow titles to multi-story units; and reviewing the valuation act to remove the requirement for a government valuer to value property could also unleash the supply of affordable housing.

### B. Address Constraints to Housing Demand

5.3.31. **Measures to boost demand for affordable housing.** On the demand side of the affordable housing market, policies which remove roadblocks for lenders to provide mortgages and housing loans will enable more financing of affordable homes to final borrowers. These policies include:

5.3.32. **Yields on government securities need to come down.** The most important impediment for borrowing for housing is the lack of long term funding at affordable rates. Government efforts to manage the government bond market more efficiently and lower the benchmark, risk-free rate would be the most critical policy reform to unlock affordable housing. Removing the interest rate cap will also unlock housing finance, as housing loans have significantly declined since the imposition of the cap, already from a low starting point.

5.3.33. **Standardization of documents.** The standardization of mortgage contracts to lower the cost of mortgage financing and accelerate the time taken to provide a mortgage instrument to borrowers.

5.3.34. **Stamp duty.** Reviewing the stamp duty for first time buyers, which is a significant cost for borrowers and purchasers.

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*Policy options to increase the provision of affordable housing could be advanced by addressing both supply and demand side bottlenecks*

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# STATISTICAL TABLES

## Table 1: Macroeconomic environment

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017e |
|---|---|---|---|---|---|---|---|---|---|
| GDP growth Rates (percent) | 3.3 | 8.4 | 6.1 | 4.6 | 5.9 | 5.4 | 5.7 | 5.8 | 4.8 |
| Agriculture | -2.3 | 10.1 | 2.4 | 3.1 | 5.4 | 4.3 | 5.5 | 4.0 | 2.3 |
| Industry | 3.7 | 8.7 | 7.2 | 4.2 | 5.3 | 6.1 | 7.3 | 5.8 | 2.9 |
| Manufacturing | -1.1 | 4.5 | 7.2 | -0.6 | 5.6 | 2.5 | 3.6 | 3.5 | |
| Services | 6.2 | 7.3 | 6.1 | 4.7 | 5.4 | 6.0 | 5.9 | 7.1 | 6.7 |
| Fiscal Framework (percent of GDP)/[1] | | | | | | | | | |
| Total revenue | 19.4 | 19.1 | 18.7 | 19.2 | 19.2 | 19.0 | 18.4 | 18.3 | 19.0 |
| Total expenditure | 24.0 | 23.8 | 23.7 | 25.1 | 25.6 | 28.1 | 26.6 | 27.6 | 26.8 |
| Grants | 1.0 | 0.6 | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 | 0.3 | 0.7 |
| Budget deficit (including grants) | -5.8 | -3.5 | -4.5 | -5.7 | -6.1 | -8.1 | -7.4 | -8.9 | -7.2 |
| Total debt (net) | 40.7 | 43.1 | 40.6 | 42.1 | 47.8 | 48.8 | 53.9 | 57.5 | 58.0 |
| External Account (percent of GDP) | | | | | | | | | |
| Exports (fob) | 12.2 | 13.1 | 13.6 | 12.5 | 10.6 | 10.4 | 9.8 | 8.1 | 7.3 |
| Imports (cif) | 25.6 | 28.7 | 33.0 | 31.3 | 29.3 | 28.3 | 23.4 | 19.3 | 20.3 |
| Current account balance | -4.6 | -6.0 | -9.2 | -8.3 | -8.8 | -10.4 | -6.7 | -5.2 | -6.5 |
| Financial account | -10.2 | -8.1 | -8.2 | -11.0 | -9.4 | -11.4 | -8.0 | -5.9 | -7.5 |
| Capital account | 0.7 | 0.6 | 0.6 | 0.5 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 |
| Overall balance | -3.0 | -0.4 | 2.1 | -2.4 | -0.7 | -2.4 | 0.4 | -0.2 | 1.1 |
| Prices | | | | | | | | | |
| Inflation | 9.2 | 4.0 | 14.0 | 9.4 | 5.7 | 6.9 | 6.6 | 6.3 | 8.0 |
| Exchange rate (average Ksh/$) | 77.4 | 79.2 | 88.8 | 84.5 | 86.1 | 87.9 | 98.2 | 101.5 | 103.4 |

*Source: Kenya National Bureau of Statistics, National Treasury, Central Bank of Kenya and World Bank*
*End of FY in June (e.g 2009 = 2009/2010)*
*[1]/Figures for 2017 are actuals for 2017/18*

## Table 2: GDP growth rates for Kenya and EAC (2011-2017)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017e |
|---|---|---|---|---|---|---|---|
| Kenya | 6.1 | 4.6 | 5.9 | 5.4 | 5.7 | 5.8 | 4.8 |
| Uganda | 9.4 | 3.8 | 3.6 | 5.1 | 5.2 | 4.7 | 4.0 |
| Tanzania | 7.9 | 5.1 | 7.3 | 6.9 | 7.0 | 7.0 | 6.4 |
| Rwanda | 7.8 | 8.8 | 4.7 | 7.6 | 8.9 | 6.0 | 6.1 |
| Average | 7.8 | 5.6 | 5.3 | 6.2 | 6.7 | 5.9 | 5.1 |

*Source: World Bank*
*Note: "e" denotes an estimate*

## Table 3: Kenya annual GDP

| Years | GDP, current prices | GDP, 2009 constant prices | GDP/capita, current prices | GDP growth |
|---|---|---|---|---|
| | Ksh Billions | Ksh Billions | US$ | Percent |
| 2007 | 2151 | 2766 | 839 | 6.9 |
| 2008 | 2483 | 2772 | 917 | 0.2 |
| 2009 | 2864 | 2864 | 920 | 3.3 |
| 2010 | 3169 | 3104 | 967 | 8.4 |
| 2011 | 3726 | 3294 | 987 | 6.1 |
| 2012 | 4261 | 3444 | 1155 | 4.6 |
| 2013 | 4745 | 3647 | 1229 | 5.9 |
| 2014 | 5402 | 3842 | 1335 | 5.4 |
| 2015 | 6261 | 4062 | 1350 | 5.7 |
| 2016 | 7159 | 4299 | 1455 | 5.8 |

*Source: Kenya National Bureau of Statistics and World Development Indicators*

## Table 4: Broad sector Contribution to GDP growth (y-o-y, percentage points)

| Year | Quarterly | Agriculture | Industry | Services | GDP |
|---|---|---|---|---|---|
| 2012 | Q1 | 0.8 | 0.7 | 2.6 | 4.1 |
| | Q2 | 0.5 | 1.2 | 2.5 | 4.2 |
| | Q3 | 0.6 | 2.3 | 2.3 | 5.2 |
| | Q4 | 0.8 | 1.0 | 2.9 | 4.7 |
| 2013 | Q1 | 1.4 | 2.7 | 2.0 | 6.1 |
| | Q2 | 1.7 | 2.1 | 3.7 | 7.5 |
| | Q3 | 1.1 | 1.7 | 3.6 | 6.4 |
| | Q4 | 0.7 | 0.1 | 2.7 | 3.5 |
| 2014 | Q1 | 1.1 | 1.7 | 2.4 | 5.2 |
| | Q2 | 1.1 | 2.2 | 2.8 | 6.0 |
| | Q3 | 1.4 | 1.1 | 2.1 | 4.6 |
| | Q4 | 0.3 | 1.7 | 3.6 | 5.6 |
| 2015 | Q1 | 2.1 | 1.6 | 2.1 | 5.8 |
| | Q2 | 1.1 | 1.7 | 2.8 | 5.6 |
| | Q3 | 0.8 | 2.3 | 2.9 | 6.1 |
| | Q4 | 0.8 | 1.8 | 2.9 | 5.5 |
| 2016 | Q1 | 1.1 | 1.2 | 3.1 | 5.3 |
| | Q2 | 1.7 | 1.5 | 3.1 | 6.3 |
| | Q3 | 0.7 | 1.5 | 3.4 | 5.6 |
| | Q4 | 0.0 | 1.5 | 4.6 | 6.2 |
| 2017 | Q1 | -0.3 | 1.4 | 3.6 | 4.7 |
| | Q2 | 0.3 | 1.0 | 3.6 | 5.0 |
| | Q3 | 0.6 | 1.0 | 2.9 | 4.4 |

*Source: World Bank, based on data from Kenya National Bureau of Statistics*

*Note: Agriculture = Agriculture, forestry and fishing*

*Industry = Mining and quarrying + Manufacturing+Electricity and water supply+Construction*

*Services = Whole sale and retail trade + Accomodation and restaurant + Transport and storage + Information and communication + Financial and insurance + Public administration + Proffessional administration and support services +Real estate +Education +Health + Other services +FISIM.*

## Table 5: Contribution by Broad sub-sectors (y-o-y, percentage points)

| | | | Industry by sub sector contribution | | | | | Service by sub sector contribution | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Quarterly | Agriculture contribution to GDP | Mining and quarrying | Manufacturing | Electricity and water supply | Construction | Industries | Accomodation and restaurant | Transport and storage | Real estate | Information and communi-cation | Financial and insurance | Other | Services |
| 2012 | Q1 | 0.8 | 0.1 | -0.1 | 0.2 | 0.7 | 0.9 | 0.2 | 0.5 | 0.4 | 0.4 | 0.0 | 1.0 | 2.4 |
| | Q2 | 0.5 | 0.2 | -0.2 | 0.1 | 0.3 | 0.4 | 0.0 | 0.5 | 0.3 | -0.2 | 0.3 | 2.3 | 3.3 |
| | Q3 | 0.6 | 0.2 | 0.1 | 0.2 | 0.5 | 1.0 | 0.0 | -0.1 | 0.3 | -0.4 | 0.4 | 3.5 | 3.6 |
| | Q4 | 0.8 | 0.2 | 0.0 | 0.2 | 0.4 | 0.9 | 0.1 | -0.1 | 0.3 | 0.5 | 0.6 | 1.6 | 3.0 |
| 2013 | Q1 | 1.4 | 0.2 | 1.0 | 0.1 | 0.4 | 1.7 | -0.5 | -0.6 | 0.3 | 0.4 | 0.6 | 2.7 | 3.0 |
| | Q2 | 1.7 | -0.2 | 0.8 | 0.2 | 0.4 | 1.3 | 0.0 | 0.1 | 0.3 | 0.3 | 0.6 | 3.3 | 4.6 |
| | Q3 | 1.1 | 0.0 | 0.6 | 0.2 | 0.4 | 1.2 | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 | 2.6 | 4.1 |
| | Q4 | 0.7 | -0.1 | 0.1 | 0.1 | -0.1 | -0.1 | 0.0 | 0.7 | 0.4 | 0.5 | 0.3 | 1.1 | 2.9 |
| 2014 | Q1 | 1.1 | 0.1 | 0.5 | 0.1 | 0.3 | 1.1 | -0.3 | 0.2 | 0.4 | 0.4 | 0.4 | 1.9 | 3.0 |
| | Q2 | 1.1 | 0.2 | 0.8 | 0.1 | 0.7 | 1.8 | -0.3 | 0.4 | 0.4 | 0.3 | 0.4 | 1.9 | 3.1 |
| | Q3 | 1.4 | 0.0 | 0.1 | 0.2 | 0.4 | 0.7 | -0.4 | 0.6 | 0.5 | 0.6 | 0.5 | 0.8 | 2.6 |
| | Q4 | 0.3 | 0.2 | -0.3 | 0.2 | 0.9 | 1.0 | 0.0 | 0.3 | 0.5 | 0.7 | 0.6 | 2.1 | 4.2 |
| 2015 | Q1 | 2.1 | 0.1 | 0.3 | 0.2 | 0.6 | 1.2 | -0.1 | 0.5 | 0.5 | 0.3 | 0.6 | 0.8 | 2.5 |
| | Q2 | 1.1 | 0.1 | 0.3 | 0.3 | 0.6 | 1.3 | 0.0 | 0.6 | 0.6 | 0.2 | 0.5 | 1.3 | 3.1 |
| | Q3 | 0.8 | 0.2 | 0.5 | 0.2 | 0.8 | 1.7 | 0.0 | 0.7 | 0.6 | 0.2 | 0.7 | 1.3 | 3.5 |
| | Q4 | 0.8 | 0.1 | 0.4 | 0.1 | 0.7 | 1.3 | 0.1 | 0.4 | 0.7 | 0.3 | 0.5 | 1.4 | 3.4 |
| 2016 | Q1 | 1.1 | 0.1 | 0.2 | 0.2 | 0.5 | 0.9 | 0.1 | 0.5 | 0.7 | 0.4 | 0.5 | 1.1 | 3.3 |
| | Q2 | 1.7 | 0.1 | 0.6 | 0.2 | 0.4 | 1.3 | 0.1 | 0.5 | 0.7 | 0.3 | 0.5 | 1.2 | 3.3 |
| | Q3 | 0.7 | 0.1 | 0.5 | 0.1 | 0.4 | 1.1 | 0.1 | 0.5 | 0.7 | 0.3 | 0.5 | 1.7 | 3.8 |
| | Q4 | 0.0 | 0.1 | 0.3 | 0.1 | 0.6 | 1.1 | 0.2 | 0.8 | 0.8 | 0.5 | 0.3 | 2.5 | 5.0 |
| 2017 | Q1 | -0.3 | 0.1 | 0.3 | 0.1 | 0.4 | 0.9 | 0.2 | 0.6 | 0.7 | 0.4 | 0.3 | 1.8 | 4.1 |
| | Q2 | 0.3 | 0.1 | 0.2 | 0.2 | 0.4 | 0.8 | 0.1 | 0.6 | 0.8 | 0.3 | 0.3 | 1.8 | 3.8 |
| | Q3 | 0.6 | 0.1 | 0.2 | 0.1 | 0.3 | 0.7 | 0.1 | 0.4 | 0.8 | 0.3 | 0.2 | 1.5 | 3.2 |

*Source: World Bank, based on data from Kenya National Bureau of Statistics*
*Note: Other = Whole sale and retail trade + Public administration + Proffessional, administration and support services + Education + Health + Other services + FISIM*

## Table 6: Quarterly growth rates (percent)

| Year | Quarter | Agriculture | | | Industry | | | Services | | | GDP | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Quarter-on-Quarter | Year-on-Year | Four Quarter Moving Average | Quarter-on-Quarter | Year-on-Year | Four Quarter Moving Average | Quarter-on-Quarter | Year-on-Year | Four Quarter Moving Average | Quarter-on-Quarter | Year-on-Year | Four Quarter Moving Average |
| 2012 | Q1 | 48.2 | 3.1 | 2.4 | -5.1 | 5.2 | 6.6 | -1.1 | 4.3 | 5.2 | 6.9 | 4.1 | 5.2 |
| | Q2 | -10.2 | 2.2 | 2.1 | -0.6 | 2.1 | 4.5 | -1.2 | 5.3 | 5.2 | -3.1 | 4.3 | 4.6 |
| | Q3 | -21.9 | 3.1 | 2.0 | 4.3 | 5.2 | 4.7 | 5.1 | 4.4 | 4.8 | -0.7 | 5.2 | 4.5 |
| | Q4 | 0.3 | 4.2 | 3.1 | 6.0 | 4.2 | 4.2 | 2.1 | 4.9 | 4.7 | 1.7 | 4.7 | 4.6 |
| 2013 | Q1 | 49.8 | 5.3 | 3.8 | -0.5 | 9.4 | 5.2 | -2.0 | 4.0 | 4.6 | 8.3 | 6.1 | 5.1 |
| | Q2 | -8.9 | 6.8 | 5.0 | -2.8 | 6.9 | 6.4 | 1.3 | 6.7 | 5.0 | -1.8 | 7.0 | 5.9 |
| | Q3 | -22.7 | 5.8 | 5.6 | 3.7 | 6.2 | 6.6 | 4.3 | 5.8 | 5.3 | -1.7 | 6.4 | 6.2 |
| | Q4 | -1.9 | 3.6 | 5.4 | -0.8 | -0.6 | 5.3 | 1.5 | 5.2 | 5.4 | -1.1 | 3.5 | 5.9 |
| 2014 | Q1 | 50.7 | 4.2 | 5.1 | 5.9 | 5.8 | 4.5 | -1.6 | 5.6 | 5.8 | 10.1 | 5.2 | 5.6 |
| | Q2 | -8.7 | 4.4 | 4.4 | 0.9 | 9.9 | 5.3 | 1.6 | 5.8 | 5.6 | -1.0 | 6.0 | 5.3 |
| | Q3 | -20.7 | 7.0 | 4.7 | -2.4 | 3.5 | 4.6 | 3.6 | 5.1 | 5.4 | -2.9 | 4.6 | 4.8 |
| | Q4 | -6.6 | 1.8 | 4.3 | 0.9 | 5.3 | 6.1 | 3.8 | 7.5 | 6.0 | -0.2 | 5.6 | 5.4 |
| 2015 | Q1 | 59.8 | 8.0 | 5.5 | 7.0 | 6.4 | 6.2 | -3.8 | 5.2 | 5.9 | 10.3 | 5.8 | 5.5 |
| | Q2 | -11.5 | 4.6 | 5.6 | 1.5 | 6.9 | 5.6 | 2.6 | 6.2 | 6.0 | -1.2 | 5.6 | 5.4 |
| | Q3 | -21.1 | 4.1 | 5.0 | -0.4 | 9.1 | 6.9 | 4.3 | 6.9 | 6.5 | -2.5 | 6.1 | 5.7 |
| | Q4 | -6.4 | 4.3 | 5.5 | -1.4 | 6.7 | 7.3 | 2.4 | 5.4 | 5.9 | -0.7 | 5.5 | 5.7 |
| 2016 | Q1 | 59.2 | 4.0 | 4.2 | 5.3 | 5.0 | 6.9 | -2.4 | 7.0 | 6.4 | 10.1 | 5.3 | 5.6 |
| | Q2 | -8.9 | 7.1 | 4.9 | 3.2 | 6.8 | 6.8 | 2.3 | 6.7 | 6.5 | -0.3 | 6.3 | 5.8 |
| | Q3 | -23.5 | 3.8 | 4.9 | -1.3 | 5.7 | 6.0 | 4.6 | 7.0 | 6.5 | -3.0 | 5.7 | 5.7 |
| | Q4 | -9.8 | 0.1 | 4.0 | -1.3 | 5.8 | 5.8 | 3.0 | 7.6 | 7.1 | -0.3 | 6.1 | 5.8 |
| 2017 | Q1 | 57.3 | -1.1 | 2.4 | 4.5 | 5.0 | 5.8 | -2.3 | 7.7 | 7.2 | 8.6 | 4.7 | 5.7 |
| | Q2 | -6.5 | 1.4 | 0.9 | 2.6 | 4.4 | 5.2 | 1.5 | 6.8 | 7.3 | 0.0 | 5.0 | 5.3 |
| | Q3 | -22.2 | 3.1 | 0.7 | -2.2 | 3.4 | 4.6 | 3.2 | 5.6 | 6.9 | -3.6 | 4.4 | 5.0 |

*Source: World Bank and Kenya National Bureau of Statistics*

**Table 7: Growth Outlook**

| Annual growth (percent) | 2014 | 2015 | 2016 | 2017e | 2018f | 2019f | 2020f |
|---|---|---|---|---|---|---|---|
| BASELINE | | | | | | | |
| GDP | | | | | | | |
| Revised projections | 5.4 | 5.7 | 5.8 | 4.8 | 5.5 | 5.9 | 6.1 |
| Revised projections (KEU 16) | 5.4 | 5.7 | 5.8 | 4.9 | 5.5 | 5.9 | |
| Previous projections (KEU 15) | 5.4 | 5.7 | 5.8 | 5.5 | 5.8 | 6.1 | |
| Private consumption | 4.3 | 5.1 | 4.8 | 4.6 | 5.2 | 5.7 | 5.7 |
| Government consumption | 1.7 | 13.0 | 7.0 | 9.9 | 5.9 | 4.1 | 2.0 |
| Gross fixed capital investment | 14.2 | 6.7 | -9.3 | 1.5 | 9.2 | 9.5 | 12.1 |
| Exports, goods and services | 5.8 | 6.2 | 0.6 | 2.8 | 5.8 | 6.8 | 7.0 |
| Imports, good and services | 10.4 | 1.2 | -4.7 | 3.8 | 7.8 | 7.4 | 7.6 |
| Agriculture | 4.3 | 5.5 | 4.0 | 2.3 | 3.9 | 4.3 | 4.6 |
| Industry | 6.1 | 7.3 | 5.8 | 2.9 | 4.0 | 4.8 | 5.0 |
| Services | 6.3 | 5.9 | 7.1 | 6.7 | 6.8 | 7.0 | 7.1 |
| Inflation (Consumer Price Index) | 6.9 | 6.6 | 6.3 | 8.0 | 6.8 | 6.5 | 6.5 |
| Current Account Balance, % of GDP | -10.4 | -6.7 | -5.2 | -5.5 | -6.5 | -7.2 | -8.4 |
| Fiscal balance, % of GDP | -8.1 | -7.4 | -8.9 | -7.2 | -6.0 | -4.3 | -3.4 |
| Debt (% of GDP) | 48.2 | 51.0 | 54.8 | 57.8 | 57.6 | 56.1 | 53.2 |
| Primary Balance (% of GDP) | -4.2 | -4.7 | -4.9 | -4.6 | -3.0 | -1.6 | -0.6 |

*Sources: World Bank and the National Treasury*
*Notes: "e" denotes and estimate, "f" denotes forecast*
** Fiscal Balance is sourced from National Treasury and presented as Fiscal Years*

**Table 8: National Fiscal position**

| Actual (percent of GDP) | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue and Grants** | **19.8** | **18.9** | **20.5** | **19.7** | **19.1** | **19.7** | **19.7** | **19.5** | **18.8** | **18.6** | **19.7** |
| Total Revenue | 18.7 | 18.2 | 19.4 | 19.1 | 18.7 | 19.2 | 19.2 | 19.0 | 18.4 | 18.3 | 19.0 |
| Tax revenue | 17.1 | 17.0 | 17.9 | 18.0 | 17.1 | 17.2 | 18.1 | 17.7 | 17.2 | 17.1 | 17.2 |
| Income tax | 6.8 | 6.9 | 7.2 | 7.9 | 7.8 | 8.3 | 8.9 | 8.7 | 8.4 | 8.2 | 8.2 |
| VAT | 4.8 | 4.7 | 4.9 | 5.0 | 4.4 | 4.1 | 4.6 | 4.5 | 4.3 | 4.4 | 4.4 |
| Import Duty | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 |
| Excise Duty | 2.7 | 2.6 | 2.5 | 2.3 | 2.0 | 1.9 | 2.0 | 2.0 | 2.1 | 2.2 | 2.1 |
| Other Revenues | 1.4 | 1.4 | 2.0 | 1.5 | 1.6 | 1.7 | 1.3 | 1.3 | 1.3 | 1.1 | 1.2 |
| Railway Levy | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.2 | 0.2 |
| Appropriation in Aid | 1.5 | 1.2 | 1.6 | 1.1 | 1.7 | 2.0 | 1.1 | 1.3 | 0.9 | 1.0 | 1.6 |
| Grants | 1.1 | 0.7 | 1.0 | 0.6 | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 | 0.3 | 0.7 |
| | | | | | | | | | | | |
| **Expenditure and Net Lending** | **23.1** | **22.3** | **24.0** | **23.8** | **23.7** | **25.1** | **25.6** | **28.1** | **26.6** | **27.6** | **26.8** |
| Recurrent | 17.4 | 16.3 | 16.9 | 16.9 | 16.3 | 18.1 | 14.8 | 14.8 | 15.3 | 15.4 | 16.2 |
| Wages and salaries | 6.3 | 5.8 | 5.7 | 5.7 | 5.5 | 6.1 | 5.5 | 5.1 | 4.6 | 4.4 | 4.6 |
| Interest Payments | 2.1 | 1.9 | 2.1 | 2.3 | 2.1 | 2.7 | 2.7 | 2.9 | 3.2 | 3.5 | 3.5 |
| Other recurrent | 9.0 | 8.5 | 9.1 | 8.9 | 8.8 | 9.3 | 6.6 | 6.7 | 7.5 | 7.5 | 8.1 |
| Development and net lending | 5.7 | 6.0 | 7.1 | 6.8 | 7.4 | 6.8 | 6.3 | 8.7 | 7.2 | 8.4 | 7.0 |
| County allocation | 0.0 | 0.0 | 0.0 | 0 | 0 | 0.2 | 3.8 | 3.9 | 3.9 | 3.7 | 3.5 |
| Contigecies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Parliamentary Service | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.4 | 0.3 | 0.3 | |
| Judicial Service | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.2 | 0.2 | 0.2 | |
| | | | | | | | | | | | |
| Fiscal balance | | | | | | | | | | | |
| | | | | | | | | | | | |
| Deficit excluding grants (commitment basis) | -4.4 | -4.0 | -4.6 | -4.6 | -4.9 | -6.6 | -6.4 | -9.1 | -8.2 | -9.3 | -7.9 |
| Deficit including grants (commitment basis) | -3.3 | -3.4 | -3.6 | -4.1 | -4.5 | -5.4 | -5.9 | -8.7 | | | |
| Deficit including grants (cash basis) | 0.3 | -4.4 | -5.8 | -3.5 | -4.5 | -5.7 | -6.1 | -8.1 | -7.4 | -8.9 | -7.2 |
| Financing | -0.3 | 4.4 | 5.8 | 3.5 | 4.5 | 5.7 | 6.1 | 8.1 | 7.1 | 9.1 | 7.2 |
| Foreign Financing | 0.3 | 1.5 | 0.8 | 0.8 | 2.8 | 1.9 | 2.1 | 3.7 | 4.0 | 5.0 | 3.7 |
| Domestic Financing | -0.6 | 2.8 | 5.0 | 2.6 | 1.6 | 3.8 | 4.0 | 4.3 | 3.0 | 4.0 | 3.4 |
| | | | | | | | | | | | |
| Total Public Debt(net) | 37.7 | 39.7 | 40.7 | 43.1 | 40.6 | 42.1 | 47.8 | 48.8 | 53.9 | 57.5 | 58 |
| External Debt | 19.1 | 20.2 | 18.9 | 21.0 | 19.6 | 18.7 | 22.4 | 24.4 | 26.8 | 30.0 | 30.2 |
| Domestic Debt (net) | 18.6 | 19.5 | 21.9 | 22.2 | 21.5 | 23.3 | 25.3 | 24.4 | 27.1 | 27.6 | 27.8 |
| | | | | | | | | | | | |
| Memo: | | | | | | | | | | | |
| GDP (Calender year current market prices, Ksh bn | 2,483 | 2,864 | 3,169 | 3,726 | 4,261 | 4,745 | 5,402 | 6,261 | 7,159 | | |
| GDP (Fiscal year current market prices, Ksh bn) | 2,317 | 2,673 | 3,017 | 3,448 | 3,994 | 4,503 | 5,072 | 5,811 | 6,710 | 7,658 | 8654.6 |

*Source: 2017 Budget Review Outlook Paper (BROP) and Quarterly Budgetary Economic Review (Fourth Quarter, Financial Year 2016/2017), National Treasury*
*Note: *indicate Preliminary results*

**Table 9: Kenya's Public and Publicly Guaranteed Debt, June 2014 to September 2017**

| KShs. Millions | 14-Jun | 14-Sep | 14-Dec | 15-Mar | 15-Jun | 15-Sep | 15-Dec | 16-Mar | 16-Jun | 16-Sep | 16-Dec | 17-Mar | 17-Jun | 17-Sept* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL PUBLIC DEBT (Net) | 2217315 | 2103447 | 2275952 | 2394450 | 2,601,432 | 2,723,628 | 2,844,004 | 2,938,291 | 3,210,775 | 3,276,654 | 3,448,699 | 3,675,734 | 3,972,526 | 4,048,978 |
| Lending | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 | -5701 |
| Government Deposits | (199,815) | (239,554) | (298,879) | (275,083) | (236,565) | (208,869) | (305,496) | (320,041) | (394,856) | (426,911) | (373,016) | (364,909) | (428,774) | (432,113) |
| Total Public Debt (Gross) | 2422831 | 2348702 | 2580532 | 2675234 | 2,843,698 | 2,938,199 | 3,155,200 | 3,264,033 | 3,611,331 | 3,709,266 | 3,827,417 | 4,046,344 | 4,407,001 | 4,486,793 |
| External Debt | 1138504 | 1087828 | 1272583 | 1278108 | 1,423,253 | 1,550,233 | 1,615,183 | 1,617,506 | 1,796,198 | 1,854,711 | 1,896,443 | 2,101,391 | 2,294,736 | 2,310,198 |
| Bilateral | 289914 | 278547 | 389083 | 384607 | 445,057 | 482,203 | 481,282 | 478,883 | 548,351 | 545,652 | 641,763 | 689,119 | 724,823 | 742,064 |
| Multilateral | 597340 | 608022 | 612353 | 618456 | 684,631 | 754,599 | 751,154 | 762,089 | 798,842 | 839,936 | 781256 | 806922 | 841899 | 842,814 |
| Commercial Bank & Supplier Credit | 251250 | 201259 | 271147 | 275044 | 293,565 | 313,430 | 382,747 | 376,534 | 449,005 | 469,123 | 473424 | 605350 | 728014 | 725320 |
| Commercial Banks | 234799 | 185163 | 255188 | 259746 | 276,937 | 295,642 | 366,231 | 360,175 | 432,377 | 452,495 | 458122 | 594140 | 712100 | 708,231 |
| Suppliers Credit | 16451 | 16096 | 15959 | 15298 | 16,628 | 17,788 | 16,516 | 16,359 | 16,628 | 16,628 | 15,302 | 11,210 | 15,914 | 17,089 |
| Domestic Debt | 1284327 | 1260874 | 1307949 | 1397126 | 1,420,444 | 1,387,966 | 1,540,017 | 1,646,527 | 1,815,133 | 1,854,555 | 1,930,973 | 1,944,953 | 2,112,265 | 2,176,595 |
| Central Bank | 65700 | 63580 | 58286 | 64835 | 63,335 | 107,637 | 101,386 | 102,648 | 99,856 | 58,945 | 85,528 | 85,316 | 55,061 | 79,201 |
| Commercial Banks | 617221 | 601426 | 649940 | 715011 | 730,419 | 682,694 | 764,399 | 829,688 | 927,307 | 969,790 | 947,030 | 975,803 | 1,141,889 | 1,148,296 |
| Non Banks & Nonresidents | 601406 | 595868 | 599723 | 617280 | 626,689 | 597,635 | 674,232 | 714,192 | 787,970 | 825,820 | 898,415 | 883,834 | 915,316 | 949,098 |
| | | | | | | | | | | | | | | |
| (%) of Total public debt(gross) | | | | | | | | | | | | | | |
| External Debt | 47.0 | 46.3 | 49.3 | 47.8 | 50.0 | 52.8 | 51.2 | 49.6 | 49.7 | 50.0 | 49.5 | 51.9 | 52.1 | 51.5 |
| Domestic Debt | 53.0 | 53.7 | 50.7 | 52.2 | 50.0 | 47.2 | 48.8 | 50.4 | 50.3 | 50.0 | 50.5 | 48.1 | 47.9 | 48.5 |
| | | | | | | | | | | | | | | |
| % of External debt | | | | | | | | | | | | | | |
| Bilateral | 25.5 | 25.6 | 30.6 | 30.1 | 31.3 | 31.1 | 29.8 | 29.6 | 30.5 | 29.4 | 33.8 | 32.8 | 31.6 | 32.1 |
| Multilateral | 52.5 | 55.9 | 48.1 | 48.4 | 48.1 | 48.7 | 46.5 | 47.1 | 44.5 | 45.3 | 41.2 | 38.4 | 36.7 | 36.5 |
| Commercial Bank & Supplier Credit | 22.1 | 18.5 | 21.3 | 21.5 | 20.6 | 20.2 | 23.7 | 23.3 | 25.0 | 25.3 | 25.0 | 28.8 | 31.7 | 31.4 |
| Commercial Banks | 20.6 | 17.0 | 20.1 | 20.3 | 19.5 | 19.1 | 22.7 | 22.3 | 24.1 | 24.4 | 24.2 | 28.3 | 31.0 | 30.7 |
| Suppliers Credit | 1.4 | 1.5 | 1.3 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.5 | 0.7 | 0.7 |
| | | | | | | | | | | | | | | |
| % of Domestic debt | | | | | | | | | | | | | | |
| Central Bank | 5.1 | 5.0 | 4.5 | 4.6 | 4.5 | 7.8 | 6.6 | 6.2 | 5.5 | 3.2 | 4.4 | 4.4 | 2.6 | 3.6 |
| Commercial Banks | 48.1 | 47.7 | 49.7 | 51.2 | 51.4 | 49.2 | 49.6 | 50.4 | 51.1 | 52.3 | 49.0 | 50.2 | 54.1 | 52.8 |
| Non Banks & Nonresidents | 46.8 | 47.3 | 45.9 | 44.2 | 44.1 | 43.1 | 43.8 | 43.4 | 43.4 | 44.5 | 46.5 | 45.4 | 43.3 | 43.6 |

Source: National Treasury (Quarterly Economic Budgetary Review,November 2017)
Note: *Provisional

**Table 10: 12-months cumulative balance of payments**
**BPM6 Concept (US$ million)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017-Nov |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A. Current Account, n.i.e. | -505 | -796 | -1821 | -1713 | -2371 | -3821 | -4205 | -4838 | -5998 | -4322 | -3653 | -5157 |
| Merchandise A/C | -3243 | -4222 | -5593 | -4952 | -6216 | -8355 | -9315 | -10243 | -11319 | -9577 | -7890 | -10243 |
| Goods: exports f.o.b. | 3509 | 4153 | 5067 | 4526 | 5248 | 5834 | 6212 | 5846 | 6219 | 5985 | 5747 | 5770 |
| Goods: imports f.o.b. | 6752 | 8375 | 10659 | 9479 | 11464 | 14189 | 15527 | 16089 | 17538 | 15563 | 13637 | 16013 |
| Oil | 1745 | 1919 | 3051 | 2192 | 2673 | 4082 | 4081 | 3838 | 4026 | 2500 | 2087 | 2654 |
| Services | 1013 | 1263 | 1377 | 1084 | 1744 | 1994 | 2602 | 2926 | 2405 | 2329 | 1689 | 1679 |
| Services: credit | 2431 | 2938 | 3260 | 2904 | 3789 | 4131 | 4990 | 5130 | 5066 | 4496 | 4526 | 5024 |
| Services: debit | 1418 | 1675 | 1883 | 1820 | 2045 | 2138 | 2387 | 2204 | 2662 | 2167 | 2837 | 3345 |
| Income | 1725 | 2162 | 2395 | 2156 | 2101 | 2540 | 2507 | 2479 | 2889 | 2795 | 2548 | 3407 |
| | | | | | | | | | | | | |
| B. Capital Account, n.i.e. | 168 | 157 | 94 | 261 | 240 | 235 | 235 | 158 | 275 | 257 | 206 | 223 |
| | | | | | | | | | | | | |
| C. Financial Account, n.i.e. | -677 | -2247 | -1423 | -3782 | -3252 | -3425 | -5542 | -5183 | -7008 | -5070 | -4137 | -5916 |
| Direct investment: net | -27 | -1001 | -384 | -1452 | -1117 | -1364 | -1142 | -920 | -1045 | -1088 | -235.1 | -360.6 |
| Portfolio investment: net | 21 | 16 | 25 | -81 | -156 | 1 | -218 | -273 | -3716 | 156 | 384.5 | 929.6 |
| Financial derivatives: net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investment: net | -671 | -1262 | -1064 | -2249 | -1979 | -2062 | -4182 | -3990 | -2248 | -4139 | -4287 | -6484.8 |
| D. Net Errors and Omissions | 235 | -805 | -189 | -1215 | -947 | -734 | -348 | -134 | 168 | -1260 | -561 | -1861 |
| E. Overall Balance | -575 | -802 | 493 | -1115 | -174 | 896 | -1223 | -369 | -1453 | 255 | -129 | 880 |
| F. Reserves and Related Items | 575 | 802 | -493 | 1115 | 174 | -896 | 1223 | 369 | 1453 | -255 | 129 | -880 |
| Reserve assets | 618 | 941 | -480 | 1322 | 154 | 246 | 1455 | 859 | 1333 | -361 | 38 | -953 |
| Credit and loans from the IMF | -6 | 116 | -17 | 199 | -34 | 284 | 193 | 177 | -119 | -107 | -91 | -73 |
| Exceptional financing | 48 | 23 | 30 | 8 | 13 | 858 | 38 | 312 | 0 | 0 | 0 | 0 |
| Gross Reserves (USD Million) | 3331 | 4557 | 4641 | 5064 | 5123 | 6045 | 7160 | 8483 | 9738 | 9794 | 9588 | 8971 |
| Official | 2415 | 3355 | 2875 | 3847 | 4002 | 4248 | 5702 | 6560 | 7895 | 7534 | 7573 | 6657 |
| Commercial Banks | 916 | 1202 | 1765 | 1217 | 1121 | 1797 | 1458 | 1923 | 1843 | 2259 | 2015 | 2314 |
| Imports cover (36 mnths import) | 3.9 | 4.4 | 3.1 | 3.9 | 3.9 | 3.4 | 4.0 | 4.3 | 4.9 | 4.8 | 5.0 | 4.5 |
| | | | | | | | | | | | | |
| Memo: | | | | | | | | | | | | |
| Annual GDP at Current prices (USD Million) | 25,826 | 31,958 | 35,895 | 37,022 | 40,000 | 41,953 | 50,411 | 55,101 | 61,445 | 63,767 | 70,526 | 78,948 |

*Source: Central Bank of Kenya*

**Table 11: Inflation**

| Year | Month | Overall Inflation | Food Inflation | Energy Inflation | Core Inflation |
|---|---|---|---|---|---|
| 2015 | January | 5.5 | 7.7 | 4.5 | 4.1 |
| | February | 5.6 | 8.7 | 3.3 | 4.1 |
| | March | 6.3 | 11.0 | 2.9 | 3.9 |
| | April | 7.1 | 13.4 | 1.5 | 4.0 |
| | May | 6.9 | 13.2 | 0.3 | 4.2 |
| | June | 7.0 | 13.4 | 0.2 | 4.4 |
| | July | 6.6 | 12.1 | 0.6 | 4.4 |
| | August | 5.8 | 9.9 | 1.1 | 4.3 |
| | September | 6.0 | 9.8 | 1.5 | 4.4 |
| | October | 6.7 | 11.3 | 2.0 | 4.4 |
| | November | 7.3 | 12.7 | 2.3 | 4.2 |
| | December | 8.0 | 13.3 | 2.9 | 5.1 |
| 2016 | January | 7.8 | 12.7 | 2.9 | 5.4 |
| | February | 7.1 | 10.8 | 1.7 | 5.4 |
| | March | 6.5 | 9.4 | 2.1 | 5.4 |
| | April | 5.3 | 6.8 | 2.0 | 5.2 |
| | May | 5.0 | 6.6 | 1.8 | 4.7 |
| | June | 5.8 | 8.9 | 1.4 | 4.5 |
| | July | 6.4 | 10.8 | 0.9 | 4.4 |
| | August | 6.3 | 10.9 | 0.1 | 4.6 |
| | September | 6.3 | 10.9 | 0.2 | 4.6 |
| | October | 6.5 | 11.0 | 0.1 | 4.6 |
| | November | 6.7 | 11.1 | 0.6 | 4.7 |
| | December | 6.3 | 11.2 | 0.1 | 3.8 |
| 2017 | January | 7.0 | 12.5 | 0.7 | 3.3 |
| | February | 9.0 | 16.7 | 3.0 | 3.3 |
| | March | 10.3 | 18.8 | 3.3 | 3.3 |
| | April | 11.5 | 21.0 | 3.7 | 3.5 |
| | May | 11.7 | 21.5 | 3.5 | 3.6 |
| | June | 9.2 | 15.8 | 3.4 | 3.5 |
| | July | 7.5 | 12.2 | 2.9 | 3.5 |
| | August | 8.0 | 13.6 | 3.1 | 3.4 |
| | September | 7.1 | 11.5 | 3.3 | 3.2 |
| | October | 5.7 | 8.5 | 3.0 | 3.2 |
| | November | 4.7 | 5.8 | 4.8 | 3.4 |
| | December | 4.5 | 4.7 | 5.4 | 3.6 |
| 2018 | January | 4.8 | 4.7 | 6.1 | 4.0 |
| | February | 4.5 | 3.8 | 6.2 | 4.2 |

*Source: World Bank, based on data from Kenya National Bureau of Statistics*

**Table 12: Credit to Private Sector Growth (%)**

| Year | Month | Total Private sector annual growth rates | Agricul-ture | Mafuctu-irng | Trade | Building and con-struction | Trans-port and communi-cation | Finance and insur-ance | Real estate | Mining and quar-rying | Private house-holds | Consumer durables | Business services | Other activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2015 | January | 21.8 | 25.2 | 30.1 | 19.8 | 17.6 | 43.0 | 76.1 | 33.4 | -3.8 | 35.2 | 14.2 | 24.8 | -31.3 |
| | February | 20.7 | 24.7 | 27.5 | 21.5 | 11.6 | 38.6 | 79.6 | 29.1 | -16.2 | 38.7 | 15.3 | 19.3 | -31.4 |
| | March | 19.6 | 22.3 | 21.1 | 18.8 | 12.7 | 31.3 | 47.5 | 19.6 | -20.1 | 28.0 | 12.4 | 27.8 | -8.9 |
| | April | 19.9 | 20.8 | 21.6 | 23.6 | 12.6 | 32.3 | 49.2 | 17.7 | -17.1 | 29.5 | 13.1 | 19.7 | -8.9 |
| | May | 20.9 | 20.5 | 25.8 | 23.0 | 14.5 | 27.0 | 50.8 | 21.3 | -13.7 | 31.5 | 11.6 | 16.4 | -3.9 |
| | June | 20.5 | 24.0 | 20.0 | 25.9 | 15.5 | 33.8 | 43.3 | 19.4 | -22.1 | 31.2 | 21.6 | 15.8 | -11.1 |
| | July | 21.2 | 28.5 | 22.3 | 26.7 | 19.8 | 33.4 | 46.8 | 15.5 | -17.9 | 28.6 | 21.5 | 25.3 | -12.6 |
| | August | 21.0 | 28.7 | 25.3 | 25.9 | 22.1 | 30.0 | 50.5 | 15.0 | -18.0 | 28.5 | 21.0 | 22.5 | -14.2 |
| | September | 20.8 | 21.4 | 19.3 | 29.7 | 27.9 | 29.0 | 45.7 | 12.5 | -5.4 | 26.6 | 19.0 | 15.9 | -0.9 |
| | October | 19.5 | 17.2 | 20.2 | 23.6 | 37.6 | 32.1 | 26.4 | 9.8 | -15.5 | 18.2 | 18.0 | 24.1 | 8.6 |
| | November | 18.7 | 12.5 | 20.8 | 22.2 | 34.0 | 32.3 | 28.5 | 10.6 | -22.8 | 16.7 | 15.3 | 19.3 | 14.6 |
| | December | 18.0 | 14.1 | 16.2 | 21.3 | 30.7 | 26.5 | 0.0 | 6.2 | -11.3 | 9.1 | 14.3 | 63.5 | -1.0 |
| 2016 | January | 16.6 | 17.3 | 15.9 | 28.4 | 25.3 | 30.2 | 12.2 | 9.1 | -9.3 | 14.6 | 12.8 | 13.8 | 4.1 |
| | February | 15.5 | 21.0 | 18.7 | 25.4 | 20.5 | 27.7 | 11.1 | 10.2 | 1.7 | 12.0 | 7.3 | 16.2 | -3.8 |
| | March | 15.2 | 18.6 | 20.6 | 21.8 | 23.2 | 22.6 | 10.8 | 15.0 | 12.5 | 10.1 | 10.0 | 13.4 | -8.6 |
| | April | 13.2 | 15.5 | 15.2 | 21.8 | 23.1 | 20.5 | 13.4 | 13.4 | 5.3 | 10.2 | 7.5 | 7.8 | -15.5 |
| | May | 10.7 | 20.2 | 12.2 | 18.1 | 16.1 | 16.9 | 8.1 | 10.1 | 3.2 | 7.8 | 9.5 | 8.5 | -18.7 |
| | June | 8.9 | 13.7 | 13.3 | 12.3 | 13.2 | 14.1 | 9.1 | 11.9 | -1.6 | 5.7 | 2.5 | 5.1 | -11.8 |
| | July | 7.0 | 6.1 | 12.5 | 13.8 | 9.2 | 12.4 | 13.5 | 8.8 | -4.5 | 3.1 | 4.3 | -4.4 | -12.9 |
| | August | 5.3 | 1.8 | -0.3 | 16.4 | 8.3 | 16.8 | -2.5 | 9.4 | -32.8 | 7.2 | 9.2 | -11.1 | -17.1 |
| | September | 4.4 | -0.5 | -2.0 | 15.2 | 1.3 | 13.6 | 2.7 | 8.9 | -33.7 | 10.5 | 5.6 | -10.2 | -24.3 |
| | October | 4.6 | 0.4 | -4.3 | 12.8 | -4.9 | 14.7 | 1.2 | 9.3 | -36.4 | 10.1 | 10.1 | -2.0 | -20.1 |
| | November | 4.2 | 3.5 | -4.1 | 15.7 | -5.3 | 16.1 | 0.1 | 8.8 | -21.3 | 10.6 | 10.6 | -11.7 | -30.6 |
| | December | 4.1 | 0.9 | -2.4 | 15.9 | -2.8 | 14.9 | 16.7 | 11.0 | -19.1 | 19.7 | 11.3 | -34.8 | -27.0 |
| 2017 | January | 3.9 | -2.6 | -6.8 | 13.4 | -0.8 | 10.2 | -0.6 | 10.3 | -17.5 | 14.7 | 11.1 | -13.0 | -31.3 |
| | February | 3.5 | 1.4 | -8.6 | 10.1 | 8.3 | 8.0 | -4.6 | 9.7 | -25.5 | 15.6 | 11.1 | -13.7 | -29.2 |
| | March | 3.0 | -7.7 | -7.8 | 11.6 | 0.6 | 9.6 | -9.2 | 12.4 | -34.0 | 13.3 | 10.1 | -15.5 | -23.5 |
| | April | 2.2 | -8.8 | -6.8 | 8.0 | -2.3 | 7.6 | -11.9 | 13.2 | -34.2 | 10.4 | 11.9 | -15.1 | -19.8 |
| | May | 1.9 | -12.6 | -5.2 | 8.8 | 2.5 | 5.6 | -2.8 | 11.8 | -39.5 | 9.8 | 11.3 | -21.8 | -20.0 |
| | June | 1.5 | -12.3 | -7.1 | 10.7 | -0.7 | 3.2 | -4.4 | 10.1 | -37.8 | 10.9 | 7.5 | -15.8 | -25.0 |
| | July | 1.4 | -11.6 | -6.6 | 9.0 | 0.5 | 0.6 | -8.5 | 11.8 | -41.0 | 12.1 | 3.3 | -10.8 | -28.1 |
| | August | 1.6 | -7.6 | 3.3 | 4.3 | -1.5 | -2.3 | 5.4 | 9.7 | -7.6 | 6.2 | -1.6 | -6.5 | -27.4 |
| | September | 1.7 | -2.0 | 6.1 | 6.9 | 1.8 | -4.9 | -1.4 | 8.9 | -0.8 | 1.9 | -0.5 | -6.4 | -28.6 |
| | October | 2.0 | -1.1 | 10.2 | 11.5 | 4.0 | -8.2 | -1.3 | 10.0 | 9.2 | 2.9 | 0.1 | -19.2 | -35.0 |
| | November | 2.7 | -7.7 | 10.6 | 10.0 | 3.1 | -8.0 | 1.5 | 9.3 | -3.2 | 2.7 | -0.4 | -7.6 | -23.1 |
| | December | 2.4 | -7.9 | 13.0 | 9.0 | 4.8 | -7.2 | -4.3 | 8.6 | -5.5 | -1.5 | -1.6 | -6.4 | -7.5 |

*Source: Central Bank of Kenya*

**Table 13: Mobile payments**

| Year | Month | Number of Agents | Number of customers (Millions) | Number of transactions (Millions) | Value of transactions (Billions) |
|---|---|---|---|---|---|
| 2015 | January | 125826 | 25.4 | 81.7 | 210.5 |
| | February | 127187 | 25.5 | 80.7 | 208.1 |
| | March | 128591 | 25.7 | 90.3 | 231.8 |
| | April | 129218 | 26.1 | 84.9 | 213.7 |
| | May | 129735 | 26.5 | 89.9 | 230.2 |
| | June | 131761 | 26.5 | 90.7 | 227.9 |
| | July | 133989 | 26.7 | 94.0 | 238.9 |
| | August | 136042 | 27.0 | 94.1 | 248.2 |
| | September | 138131 | 27.3 | 96.3 | 247.5 |
| | October | 140612 | 27.5 | 102.8 | 255.8 |
| | November | 142386 | 28.1 | 101.3 | 236.4 |
| | December | 143946 | 28.6 | 107.4 | 267.1 |
| 2016 | January | 146710 | 29.1 | 95.5 | 243.4 |
| | February | 148982 | 29.5 | 101.0 | 257.2 |
| | March | 150987 | 30.7 | 107.9 | 273.6 |
| | April | 153762 | 31.4 | 105.5 | 269.8 |
| | May | 156349 | 31.3 | 107.8 | 277.9 |
| | June | 162465 | 31.4 | 106.3 | 271.0 |
| | July | 167072 | 32.3 | 110.5 | 281.9 |
| | August | 173774 | 32.8 | 114.2 | 296.9 |
| | September | 173731 | 33.4 | 112.6 | 283.9 |
| | October | 181456 | 34.0 | 122.5 | 292.1 |
| | November | 162441 | 34.3 | 120.9 | 291.2 |
| | December | 165908 | 35.0 | 126.3 | 316.8 |
| 2017 | January | 152547 | 33.3 | 122.0 | 299.5 |
| | February | 154908 | 33.3 | 117.5 | 279.4 |
| | March | 157855 | 33.9 | 133.3 | 320.2 |
| | April | 160076 | 34.3 | 128.9 | 297.4 |
| | May | 164674 | 34.2 | 132.5 | 315.4 |
| | June | 165109 | 34.2 | 125.9 | 299.8 |
| | July | 169480 | 34.6 | 128.1 | 308.9 |
| | August | 167353 | 35.3 | 120.6 | 286.3 |
| | September | 167775 | 35.5 | 128.5 | 300.9 |
| | October | 170389 | 36.0 | 134.2 | 299.0 |
| | November | 176986 | 36.4 | 131.7 | 299.0 |
| | December | 182472 | 37.4 | 139.9 | 332.6 |
| 2018 | January | 188029 | 37.8 | 136.7 | 323.0 |

*Source: Central Bank of Kenya*

### Table 14: Exchange rate

| Year | Month | USD | UK Pound | Euro |
|---|---|---|---|---|
| 2015 | January | 91.4 | 138.5 | 106.3 |
| | February | 91.5 | 140.2 | 103.9 |
| | March | 91.7 | 137.5 | 99.4 |
| | April | 93.4 | 139.6 | 100.7 |
| | May | 96.4 | 149.1 | 107.5 |
| | June | 97.7 | 152.2 | 109.7 |
| | July | 101.2 | 157.5 | 111.4 |
| | August | 102.4 | 159.8 | 114.1 |
| | September | 105.3 | 161.5 | 118.2 |
| | October | 102.8 | 157.5 | 115.4 |
| | November | 102.2 | 155.4 | 109.8 |
| | December | 102.2 | 153.3 | 111.1 |
| 2016 | January | 102.3 | 147.5 | 111.1 |
| | February | 101.9 | 145.9 | 113.0 |
| | March | 101.5 | 144.2 | 112.6 |
| | April | 101.2 | 144.8 | 114.8 |
| | May | 100.7 | 146.3 | 114.0 |
| | June | 101.1 | 144.3 | 113.7 |
| | July | 101.3 | 133.4 | 112.1 |
| | August | 101.4 | 132.9 | 113.7 |
| | September | 101.3 | 133.2 | 113.5 |
| | October | 101.3 | 125.4 | 111.9 |
| | November | 101.7 | 126.3 | 110.0 |
| | December | 102.1 | 127.7 | 107.7 |
| 2017 | January | 103.7 | 128.0 | 110.2 |
| | February | 103.6 | 129.5 | 130.4 |
| | March | 102.9 | 126.9 | 109.9 |
| | April | 103.3 | 130.4 | 110.7 |
| | May | 103.3 | 133.5 | 114.8 |
| | June | 103.5 | 132.5 | 116.2 |
| | July | 103.9 | 134.9 | 119.4 |
| | August | 103.6 | 134.2 | 122.2 |
| | September | 103.1 | 137.1 | 122.9 |
| | October | 103.4 | 136.4 | 121.6 |
| | November | 103.6 | 136.8 | 121.4 |
| | December | 103.1 | 138.2 | 122.0 |
| 2018 | January | 102.9 | 141.9 | 125.4 |

*Source: Central Bank of Kenya*

### Table 15: Exchange rate (Index January 2016 = 100)

| Year | Month | NEER | REER | USD |
|---|---|---|---|---|
| 2015 | January | 93.0 | 99.6 | 89.3 |
| | February | 92.7 | 99.2 | 89.4 |
| | March | 91.8 | 97.8 | 89.7 |
| | April | 93.4 | 99.2 | 91.3 |
| | May | 97.0 | 101.3 | 94.2 |
| | June | 98.1 | 102.4 | 95.5 |
| | July | 101.2 | 105.7 | 98.9 |
| | August | 102.1 | 106.2 | 100.1 |
| | September | 104.8 | 108.3 | 102.9 |
| | October | 102.4 | 105.8 | 100.5 |
| | November | 100.7 | 103.4 | 99.9 |
| | December | 100.5 | 101.9 | 99.9 |
| 2016 | January | 100.0 | 100.0 | 100.0 |
| | February | 100.1 | 100.5 | 99.6 |
| | March | 100.0 | 100.3 | 99.2 |
| | April | 100.6 | 100.7 | 98.9 |
| | May | 99.9 | 99.7 | 98.5 |
| | June | 100.2 | 99.5 | 98.9 |
| | July | 99.7 | 98.5 | 99.0 |
| | August | 100.3 | 99.1 | 99.1 |
| | September | 100.3 | 99.8 | 99.0 |
| | October | 99.3 | 98.9 | 99.0 |
| | November | 99.0 | 98.5 | 99.4 |
| | December | 98.5 | 98.8 | 99.8 |
| 2017 | January | 95.8 | 95.1 | 101.4 |
| | February | 100.5 | 96.5 | 101.3 |
| | March | 99.9 | 94.8 | 100.5 |
| | April | 100.6 | 93.8 | 101.0 |
| | May | 101.2 | 104.3 | 100.9 |
| | June | 97.5 | 101.1 | 101.2 |
| | July | 103.6 | 106.1 | 101.5 |
| | August | 103.3 | 105.7 | 101.2 |
| | September | | | 100.8 |
| | October | | | 101.1 |
| | November | | | 101.2 |
| | December | | | 100.8 |
| 2018 | January | | | 100.6 |

*Source: Central Bank of Kenya and World Bank*

**Table 16: Nairobi Securities Exchange**
**(NSE 20 Share Index, Jan 1966=100, End - month)**

| Year | Month | NSE 20 Share Index |
|---|---|---|
| 2016 | January | 5,212 |
| | February | 5,491 |
| | March | 5,248 |
| | April | 5,091 |
| | May | 4,787 |
| | June | 4,906 |
| | July | 4,405 |
| | August | 4,177 |
| | September | 4,174 |
| | October | 3,869 |
| | November | 4,016 |
| | December | 4,041 |
| 2017 | January | 3,773 |
| | February | 3,862 |
| | March | 3,982 |
| | April | 4,009 |
| | May | 3,828 |
| | June | 3,641 |
| | July | 3,489 |
| | August | 3,179 |
| | September | 3,243 |
| | October | 3,229 |
| | November | 3,247 |
| | December | 3,186 |
| 2018 | January | 2,794 |
| | February | 2,995 |
| | March | 3,113 |
| | April | 3,158 |
| | May | 3,441 |
| | June | 3,607 |
| | July | 3,798 |
| | August | 4,027 |
| | September | 3,751 |
| | October | 3,730 |
| | November | 3,805 |
| | December | 3,712 |
| 2018 | January | 3,737 |

*Source: Central Bank of Kenya*

## Table 17: Central Bank Rate and Treasury Bills

| Year | Month | Central Bank Rate | 91-Treasury Bill | 182-Treasury Bill | 364-Treasury Bill |
|---|---|---|---|---|---|
| 2015 | January | 8.5 | 8.6 | 9.6 | 12.1 |
| | February | 8.5 | 8.6 | 10.0 | 11.0 |
| | March | 8.5 | 8.5 | 10.3 | 10.7 |
| | April | 8.5 | 8.4 | 10.3 | 10.6 |
| | May | 8.5 | 8.3 | 10.3 | 10.7 |
| | June | 10 | 8.3 | 10.4 | 11.0 |
| | July | 11.5 | 10.6 | 11.0 | 11.6 |
| | August | 11.5 | 11.5 | 11.5 | 13.3 |
| | September | 11.5 | 14.0 | 12.5 | 15.2 |
| | October | 11.5 | 21.0 | 15.7 | 21.5 |
| | November | 11.5 | 12.3 | 16.3 | 15.2 |
| | December | 11.5 | 9.7 | 15.7 | 12.5 |
| 2016 | January | 11.5 | 11.2 | 13.0 | 14.1 |
| | February | 11.5 | 10.6 | 12.8 | 13.7 |
| | March | 11.5 | 8.7 | 12.6 | 12.3 |
| | April | 11.5 | 8.9 | 11.7 | 11.8 |
| | May | 10.5 | 8.2 | 10.7 | 11.6 |
| | June | 10.5 | 7.3 | 10.2 | 10.8 |
| | July | 10.5 | 7.4 | 9.9 | 10.9 |
| | August | 10.0 | 8.5 | 10.8 | 11.7 |
| | September | 10.0 | 8.1 | 10.8 | 11.0 |
| | October | 10.0 | 7.8 | 10.3 | 10.4 |
| | November | 10.0 | 8.2 | 10.3 | 10.8 |
| | December | 10.0 | 8.4 | 10.5 | 10.6 |
| 2017 | January | 10.0 | 8.6 | 10.5 | 11.0 |
| | February | 10.0 | 8.6 | 10.5 | 10.9 |
| | March | 10.0 | 8.6 | 10.5 | 10.9 |
| | April | 10.0 | 8.8 | 10.5 | 10.9 |
| | May | 10.0 | 8.7 | 10.4 | 10.9 |
| | June | 10.0 | 8.4 | 10.3 | 10.9 |
| | July | 10.0 | 8.2 | 10.3 | 10.9 |
| | August | 10.0 | 8.2 | 10.4 | 10.9 |
| | September | 10.0 | 8.1 | 10.4 | 10.9 |
| | October | 10.0 | 8.1 | 10.3 | 11.0 |
| | November | 10.0 | 8.0 | 10.5 | 11.0 |
| | December | 10.0 | 8.0 | 10.5 | 11.1 |
| 2018 | January | 10.0 | 8.0 | 10.6 | 11.2 |
| | February | 10.0 | 8.0 | 10.4 | 11.2 |
| | March | 9.5 | | | |
| | April | 9.5 | | | |

*Source: Central Bank of Kenya*

**Table 18: Interest rates**

| Year | Month | Short-term | | | Long-term | | | |
|---|---|---|---|---|---|---|---|---|
| | | Interbank | 91-Treasury Bill | Central Bank Rate | Average deposit rate | Savings | Overall weigheted lending rate | Interest Rate Spread |
| 2015 | January | 7.2 | 8.6 | 8.5 | 6.7 | 1.6 | 15.9 | 9.3 |
| | February | 6.9 | 8.6 | 8.5 | 6.7 | 1.5 | 15.5 | 8.8 |
| | March | 6.8 | 8.5 | 8.5 | 6.6 | 1.5 | 15.5 | 8.8 |
| | April | 8.9 | 8.4 | 8.5 | 6.6 | 1.9 | 15.4 | 8.8 |
| | May | 11.1 | 8.3 | 8.5 | 6.6 | 1.5 | 15.3 | 8.7 |
| | June | 11.9 | 8.3 | 10.0 | 6.6 | 1.9 | 16.1 | 9.4 |
| | July | 13.4 | 10.6 | 11.5 | 6.3 | 1.4 | 15.8 | 9.4 |
| | August | 18.6 | 11.5 | 11.5 | 6.9 | 1.5 | 15.7 | 8.8 |
| | September | 21.3 | 14.0 | 11.5 | 7.3 | 1.7 | 16.8 | 9.5 |
| | October | 15.3 | 21.0 | 11.5 | 7.5 | 1.7 | 16.6 | 9.0 |
| | November | 8.9 | 12.3 | 11.5 | 7.4 | 1.3 | 17.2 | 9.8 |
| | December | 5.3 | 9.7 | 11.5 | 8.0 | 1.6 | 18.3 | 10.3 |
| 2016 | January | 6.4 | 11.2 | 11.5 | 7.6 | 1.6 | 18.0 | 10.4 |
| | February | 4.5 | 10.6 | 11.5 | 7.5 | 1.4 | 17.9 | 10.4 |
| | March | 4.0 | 8.7 | 11.5 | 7.2 | 1.4 | 17.9 | 10.7 |
| | April | 3.9 | 8.9 | 11.5 | 6.9 | 1.5 | 18.0 | 11.1 |
| | May | 3.6 | 8.2 | 10.5 | 6.4 | 1.6 | 18.2 | 11.8 |
| | June | 4.9 | 7.3 | 10.5 | 6.8 | 1.6 | 18.2 | 11.4 |
| | July | 5.5 | 7.4 | 10.5 | 6.6 | 1.7 | 18.1 | 11.5 |
| | August | 5.0 | 8.5 | 10.0 | 6.4 | 1.7 | 17.7 | 11.2 |
| | September | 4.9 | 8.1 | 10.0 | 6.9 | 3.8 | 13.9 | 7.0 |
| | October | 4.1 | 7.8 | 10.0 | 7.8 | 6.1 | 13.7 | 5.9 |
| | November | 5.1 | 8.2 | 10.0 | 7.6 | 6.5 | 13.7 | 6.0 |
| | December | 5.9 | 8.4 | 10.0 | 7.3 | 6.4 | 13.7 | 6.4 |
| 2017 | January | 7.7 | 8.6 | 10.0 | 7.2 | 6.1 | 13.7 | 6.5 |
| | February | 6.4 | 8.6 | 10.0 | 7.7 | 6.8 | 13.7 | 6.0 |
| | March | 4.5 | 8.6 | 10.0 | 7.1 | 5.9 | 13.6 | 6.5 |
| | April | 5.3 | 8.8 | 10.0 | 7.0 | 5.7 | 13.6 | 6.6 |
| | May | 4.9 | 8.7 | 10.0 | 7.1 | 5.9 | 13.7 | 6.6 |
| | June | 4.0 | 8.4 | 10.0 | 7.2 | 5.6 | 13.7 | 6.5 |
| | July | 6.8 | 8.2 | 10.0 | 7.4 | 6.4 | 13.7 | 6.3 |
| | August | 8.1 | 8.2 | 10.0 | 7.67 | 5.94 | 13.65 | 6.0 |
| | September | 5.5 | 8.1 | 10.0 | 7.66 | 6.43 | 13.69 | 6.0 |
| | October | 7.8 | 8.1 | 10.0 | 8.01 | 6.92 | 13.71 | 5.7 |
| | November | 8.9 | 8.0 | 10.0 | 8.07 | 6.93 | 13.68 | 5.6 |
| | December | 7.2 | 8.0 | 10.0 | 8.22 | 6.91 | 13.64 | 5.4 |

*Source: Central Bank of Kenya*

## Table 19: Money aggregate

| Year | Growth rates (yoy) | Money supply, M1 | Money supply, M2 | Money supply, M3 | Reserve money |
|---|---|---|---|---|---|
| 2015 | January | 11.4 | 17.0 | 16.0 | 15.8 |
| | February | 10.0 | 17.2 | 18.6 | 11.5 |
| | March | 11.9 | 16.4 | 16.4 | 11.8 |
| | April | 13.4 | 17.2 | 17.3 | 12.0 |
| | May | 10.0 | 14.8 | 16.5 | 15.0 |
| | June | 9.6 | 16.4 | 18.6 | 14.9 |
| | July | 13.0 | 16.0 | 16.4 | 25.8 |
| | August | 10.5 | 14.3 | 14.0 | 2.9 |
| | September | 8.5 | 12.7 | 13.5 | 16.7 |
| | October | 10.8 | 13.6 | 13.6 | 24.5 |
| | November | 7.9 | 11.6 | 13.0 | 13.0 |
| | December | 8.5 | 12.4 | 13.7 | 3.3 |
| 2016 | January | 10.9 | 10.8 | 11.1 | 9.1 |
| | February | 9.9 | 10.0 | 9.3 | 9.2 |
| | March | 10.9 | 10.7 | 11.2 | 16.1 |
| | April | 10.6 | 9.9 | 9.5 | 9.0 |
| | May | 12.8 | 9.8 | 8.6 | 7.6 |
| | June | 13.4 | 9.2 | 8.1 | 4.9 |
| | July | 9.4 | 7.8 | 6.9 | 4.3 |
| | August | 9.5 | 6.9 | 6.8 | 6.8 |
| | September | 26.1 | 8.8 | 8.0 | 4.3 |
| | October | 24.3 | 6.8 | 6.8 | -7.4 |
| | November | 25.3 | 6.2 | 6.2 | 0.5 |
| | December | 28.1 | 4.8 | 3.7 | 4.8 |
| 2017 | January | 21.9 | 5.3 | 5.2 | 5.1 |
| | February | 23.7 | 4.5 | 5.4 | 2.9 |
| | March | 22.1 | 5.7 | 6.4 | 3.2 |
| | April | 23.6 | 6.3 | 7.1 | 9.0 |
| | May | 21.8 | 6.2 | 6.7 | 5.2 |
| | June | 22.5 | 5.4 | 6.0 | 2.9 |
| | July | 24.6 | 7.5 | 8.3 | 5.0 |
| | August | 22.5 | 7.5 | 7.7 | 7.7 |
| | September | 11.6 | 7.5 | 7.7 | 8.1 |
| | October | 9.5 | 7.0 | 7.9 | 3.8 |
| | November | 7.8 | 7.4 | 7.8 | 6.2 |
| | December | 6.7 | 7.5 | 8.9 | 6.7 |
| 2018 | January | 8.0 | 8.3 | 9.0 | |
| | February | 8.4 | 8.4 | 8.0 | |

*Source: Central Bank of Kenya and World Bank*

## Table 20: Coffee production and exports

| Year | Month | Production MT | Price Ksh/Kg | Exports MT | Exports value Ksh Million |
|---|---|---|---|---|---|
| 2015 | January | 2,795 | 412 | 2,844 | 1,307 |
| | February | 4,837 | 489 | 2,884 | 1,339 |
| | March | 5,571 | 378 | 4,290 | 2,025 |
| | April | 3,714 | 310 | 3,948 | 1,901 |
| | May | 2,969 | 289 | 4,383 | 2,236 |
| | June | 0 | 0 | 4,220 | 2,068 |
| | July | 2,086 | 339 | 3,938 | 1,943 |
| | August | 3,286 | 371 | 3,991 | 1,790 |
| | September | 2,643 | 364 | 3,405 | 1,617 |
| | October | 1,768 | 320 | 4,400 | 2,019 |
| | November | 1,268 | 337 | 2,769 | 1,244 |
| | December | 1,282 | 435 | 2,528 | 1,092 |
| 2016 | January | 3,432 | 462 | 2,449 | 1,184 |
| | February | 5,220 | 486 | 3,277 | 1,636 |
| | March | 6,835 | 437 | 4,169 | 2,206 |
| | April | 4,513 | 340 | 4,804 | 2,540 |
| | May | 4,735 | 263 | 4,814 | 2,170 |
| | June | 1,747 | 268 | 4,983 | 2,369 |
| | July | 569 | 324 | 3,987 | 1,798 |
| | August | 3,723 | 431 | 3,719 | 1,637 |
| | September | 3,284 | 437 | 3,173 | 1,399 |
| | October | 1,573 | 410 | 3,116 | 1,489 |
| | November | 2,374 | 468 | 3,929 | 1,691 |
| | December | 1,666 | 514 | 2,886 | 1,252 |
| 2017 | January | 5,190 | 590 | 3,214 | 1,553 |
| | February | 6,081 | 606 | 3,868 | 2,094 |
| | March | 5,460 | 507 | 5,447 | 3,231 |
| | April | 4,563 | 299 | 4,201 | 2,698 |
| | May | 1,639 | 276 | 5,424 | 3,117 |
| | June | - | - | 4,443 | 2,501 |
| | July | 762 | 420 | 3,598 | 1,971 |
| | August | 2,319 | 443 | 2,649 | 1,311 |
| | September | 2,465 | 457 | 3,134 | 1,516 |
| | October | 1,619 | 409 | 2,335 | 1,121 |
| | November | 2,310 | 419 | 3,196 | 1,566 |
| | December | 1,320 | 453 | 1,955 | 775 |
| 2018 | January | 5,112 | 527 | 2,509 | 1,286 |
| | February | 5,832 | 577 | | |

*Source: Kenya National Bureau of Statistics*

**Table 21: Tea production and exports**

| Year | Month | Production MT | Price Ksh/Kg | Exports MT | Exports value Ksh Million |
|---|---|---|---|---|---|
| 2015 | January | 41,653 | 212 | 40,970 | 8,485 |
| | February | 24,276 | 221 | 41,086 | 9,313 |
| | March | 15,688 | 250 | 35,700 | 8,796 |
| | April | 23,837 | 258 | 28,262 | 7,189 |
| | May | 37,523 | 297 | 27,016 | 7,506 |
| | June | 32,286 | 319 | 35,915 | 11,263 |
| | July | 30,942 | 344 | 30,623 | 10,146 |
| | August | 28,410 | 330 | 27,687 | 9,481 |
| | September | 36,484 | 327 | 33,528 | 11,413 |
| | October | 41,343 | 333 | 40,246 | 13,538 |
| | November | 40,382 | 313 | 36,714 | 12,126 |
| | December | 46,387 | 309 | 42,779 | 13,768 |
| 2016 | January | 50,308 | 279 | 36,575 | 11,013 |
| | February | 43,969 | 253 | 43,292 | 12,200 |
| | March | 45,330 | 234 | 37,571 | 9,887 |
| | April | 37,571 | 214 | 39,313 | 9,517 |
| | May | 36,573 | 223 | 44,901 | 10,658 |
| | June | 35,603 | 243 | 52,175 | 12,613 |
| | July | 29,285 | 246 | 42,751 | 10,679 |
| | August | 29,462 | 234 | 39,673 | 9,993 |
| | September | 36,785 | 236 | 33,528 | 8,454 |
| | October | 41,342 | 243 | 29,656 | 7,548 |
| | November | 39,903 | 273 | 41,138 | 11,123 |
| | December | 45,103 | 273 | 39,396 | 10,811 |
| 2017 | January | 32,991 | 316 | 46,434 | 14,072 |
| | February | 22,605 | 317 | 33,898 | 10,880 |
| | March | 34,498 | 300 | 33,662 | 10,693 |
| | April | 31,458 | 297 | 32,091 | 9,991 |
| | May | 38,822 | 304 | 39,329 | 12,354 |
| | June | 40,538 | 325 | 42,370 | 13,485 |
| | July | 31,565 | 310 | 41,437 | 13,442 |
| | August | 32,693 | 300 | 29,628 | 9,269 |
| | September | 38,386 | 305 | 43,469 | 13,570 |
| | October | 43,420 | 316 | 41,173 | 13,147 |
| | November | 45,374 | 309 | 39,128 | 12,713 |
| | December | 47,507 | 285 | 44,413 | 13,634 |
| 2018 | January | 40,834 | 304 | 48,447 | 14,964 |

*Source: Kenya National Bureau of Statistics*

**Table 22: Horticulture Exports**

| Year | Month | Exports MT | Exports value Ksh. Million |
|---|---|---|---|
| 2015 | January | 18,170 | 6,413 |
| | February | 20,599 | 7,892 |
| | March | 21,259 | 10,510 |
| | April | 21,410 | 6,223 |
| | May | 19,160 | 6,300 |
| | June | 16,904 | 5,140 |
| | July | 17,359 | 8,551 |
| | August | 16,175 | 5,824 |
| | September | 25,188 | 8,187 |
| | October | 22,179 | 9,905 |
| | November | 19,428 | 8,095 |
| | December | 20,179 | 7,399 |
| 2016 | January | 20,160 | 10,927 |
| | February | 22,337 | 10,151 |
| | March | 24,314 | 11,140 |
| | April | 25,931 | 8,611 |
| | May | 21,260 | 7,004 |
| | June | 20,157 | 10,293 |
| | July | 17,981 | 5,577 |
| | August | 19,650 | 7,293 |
| | September | 20,924 | 6,659 |
| | October | 23,327 | 8,312 |
| | November | 22,772 | 7,641 |
| | December | 22,294 | 7,906 |
| 2017 | January | 27,045 | 11,559 |
| | February | 27,461 | 10,942 |
| | March | 27,892 | 9,094 |
| | April | 25,658 | 8,977 |
| | May | 30,549 | 10,292 |
| | June | 26,271 | 9,395 |
| | July | 22,179 | 8,660 |
| | August | 23,357 | 9,237 |
| | September | 23,818 | 8,962 |
| | October | 24,337 | 9,059 |
| | November | 21,676 | 8,275 |
| | December | 23,905 | 10,871 |

*Source: Kenya National Bureau of Statistics*

**Table 23: Leading Economic Indicators year to date growth rates (Percent)**

| Year | Month | Horticulture | Coffee | Tea |
|---|---|---|---|---|
| 2015 | January | -1.8 | -10.3 | 6.0 |
| | February | 1.7 | -8.3 | 13.7 |
| | March | 5.4 | -7.5 | 7.2 |
| | April | 5.0 | -11.0 | -0.8 |
| | May | 3.3 | -9.5 | -5.7 |
| | June | 1.6 | -9.3 | -6.1 |
| | July | 1.6 | -12.5 | -9.6 |
| | August | 1.2 | -9.3 | -11.8 |
| | September | 5.1 | -9.7 | -11.3 |
| | October | 5.9 | -7.0 | -9.4 |
| | November | 6.6 | -8.5 | -8.9 |
| | December | 8.1 | -8.1 | -7.9 |
| 2016 | January | 11.0 | -13.9 | -10.7 |
| | February | 9.6 | 0.0 | -2.7 |
| | March | 11.3 | -1.2 | -0.3 |
| | April | 13.9 | 5.3 | 7.4 |
| | May | 13.3 | 6.3 | 16.5 |
| | June | 14.2 | 8.5 | 21.5 |
| | July | 12.8 | 7.5 | 23.8 |
| | August | 13.7 | 5.6 | 25.8 |
| | September | 9.4 | 4.3 | 22.9 |
| | October | 8.9 | 0.5 | 17.1 |
| | November | 9.6 | 3.3 | 16.6 |
| | December | 9.7 | 3.9 | 14.1 |
| 2017 | January | 34.1 | 31.2 | 27.0 |
| | February | 28.3 | 23.7 | 0.6 |
| | March | 23.3 | 26.6 | -2.9 |
| | April | 16.5 | 13.8 | -6.8 |
| | May | 21.6 | 13.5 | -8.1 |
| | June | 22.9 | 8.6 | -10.3 |
| | July | 22.9 | 6.0 | -9.2 |
| | August | 22.5 | 2.0 | -11.1 |
| | September | 21.5 | 1.7 | -7.4 |
| | October | 19.7 | -0.5 | -4.0 |
| | November | 17.3 | -2.1 | -4.1 |
| | December | 16.5 | -4.1 | -2.7 |
| 2018 | January | | -21.9 | 4.3 |

*Source: World Bank, based on data from Kenya National Bureau of Statistics*

### Table 24: Local Electricity Generation by Source

| Year | Month | Hydro KWh Million | Geo-thermal KWh Million | Thermal KWh million | Total KWh million |
|---|---|---|---|---|---|
| 2014 | January | 278 | 388 | 109 | 776 |
| | February | 230 | 352 | 121 | 703 |
| | March | 246 | 377 | 134 | 757 |
| | April | 264 | 359 | 121 | 744 |
| | May | 301 | 380 | 103 | 784 |
| | June | 297 | 362 | 109 | 769 |
| | July | 305 | 353 | 143 | 801 |
| | August | 319 | 378 | 112 | 808 |
| | September | 306 | 389 | 99 | 794 |
| | October | 310 | 402 | 100 | 812 |
| | November | 300 | 393 | 89 | 782 |
| | December | 307 | 387 | 92 | 786 |
| 2015 | January | 322 | 392 | 93 | 808 |
| | February | 297 | 392 | 95 | 784 |
| | March | 335 | 383 | 112 | 830 |
| | April | 303 | 394 | 102 | 800 |
| | May | 334 | 403 | 92 | 830 |
| | June | 348 | 342 | 113 | 803 |
| | July | 337 | 393 | 110 | 842 |
| | August | 364 | 345 | 138 | 850 |
| | September | 349 | 335 | 137 | 824 |
| | October | 357 | 364 | 135 | 862 |
| | November | 315 | 369 | 158 | 848 |
| | December | 299 | 371 | 158 | 836 |
| 2016 | January | 252 | 380 | 197 | 837 |
| | February | 214 | 354 | 182 | 758 |
| | March | 234 | 388 | 230 | 858 |
| | April | 212 | 381 | 223 | 822 |
| | May | 229 | 394 | 224 | 849 |
| | June | 180 | 376 | 274 | 834 |
| | July | 193 | 402 | 271 | 867 |
| | August | 251 | 415 | 159 | 829 |
| | September | 239 | 403 | 213 | 859 |
| | October | 217 | 416 | 224 | 861 |
| | November | 305 | 411 | 153 | 877 |
| | December | 250 | 436 | 185 | 879 |
| 2017 | January | 223 | 430 | 244 | 900 |

*Source: Kenya National Bureau of Statistics*

**Table 25: Soft drinks, sugar, Galvanized sheets and Cement Production**

| Year | Month | Soft drinks Litres (thousands) | Sugar MT | Galvanized sheets MT | Cement MT |
|---|---|---|---|---|---|
| 2014 | January | 41,348 | 63,227 | 21,304 | 511,298 |
| | February | 41,440 | 57,917 | 20,078 | 465,471 |
| | March | 48,865 | 63,389 | 22,797 | 550,556 |
| | April | 42,148 | 46,280 | 20,674 | 537,452 |
| | May | 36,874 | 44,081 | 23,132 | 516,513 |
| | June | 36,274 | 46,098 | 20,358 | 516,185 |
| | July | 32,086 | 47,957 | 18,415 | 570,904 |
| | August | 38,432 | 54,089 | 20,871 | 553,929 |
| | September | 40,176 | 61,069 | 20,581 | 561,235 |
| | October | 42,936 | 56,360 | 26,024 | 557,589 |
| | November | 40,025 | 43,401 | 25,764 | 510,747 |
| | December | 49,966 | 48,089 | 16,938 | 486,306 |
| 2015 | January | 50,502 | 41,348 | 21,330 | 533,490 |
| | February | 45,237 | 41,440 | 20,102 | 531,813 |
| | March | 58,038 | 48,865 | 20,120 | 541,438 |
| | April | 44,429 | 42,148 | 23,109 | 568,253 |
| | May | 43,189 | 36,874 | 21,980 | 585,929 |
| | June | 39,191 | 36,202 | 20,180 | 547,238 |
| | July | 42,393 | 32,158 | 18,320 | 575,193 |
| | August | 39,331 | 38,508 | 24,190 | 591,612 |
| | September | 48,884 | 40,291 | 21,045 | 528,494 |
| | October | 46,131 | 43,203 | 18,328 | 573,034 |
| | November | 41,877 | 40,141 | 19,143 | 584,780 |
| | December | 52,185 | 49,966 | 19,431 | 545,956 |
| 2016 | January | 50,491 | 53,071 | 23,271 | 565,440 |
| | February | 43,941 | 49,094 | 21,696 | 491,307 |
| | March | 46,585 | 41,936 | 22,165 | 570,522 |
| | April | 41,814 | 26,230 | 21,999 | 535,061 |
| | May | 36,483 | 15,246 | 22,162 | 482,762 |
| | June | 41,265 | 16,113 | 21,645 | 513,313 |
| | July | 39,575 | 17,882 | 22,029 | 553,631 |
| | August | 38,228 | 10,892 | 21673 | 451,651 |
| | September | 35,677 | 21,649 | 22,206 | 498,167 |
| | October | 39,905 | 32,296 | 23,037 | 498,374 |
| | November | 39,033 | 43,175 | | 494,518 |
| | December | | 49,240 | | 502,518 |
| 2017 | January | | 56,860 | | 511,328 |

*Source: Kenya National Bureau of Statistics*

**Table 26: Tourism arrivals**

| Year | Month | JKIA | MIA | TOTAL |
|---|---|---|---|---|
| 2014 | January | 40,846 | 10,107 | 50,952 |
| | February | 45,141 | 7,882 | 53,053 |
| | March | 66,121 | 6,958 | 73,079 |
| | April | 49,933 | 4,020 | 53,953 |
| | May | 50,764 | 2,511 | 53,275 |
| | June | 59,867 | 3,218 | 63,146 |
| | July | 72,515 | 5,728 | 78,243 |
| | August | 63,332 | 7,546 | 70,878 |
| | September | 54,162 | 5,114 | 59,276 |
| | October | 66,441 | 6,049 | 72,490 |
| | November | 53,622 | 7,718 | 61,340 |
| | December | 50,015 | 9,070 | 59,085 |
| 2015 | January | 65,431 | 9,407 | 74,838 |
| | February | 62,856 | 9,983 | 72,839 |
| | March | 49,996 | 8,551 | 58,547 |
| | April | 51,311 | 3,869 | 55,180 |
| | May | 59,294 | 3,578 | 62,872 |
| | June | 64,451 | 4,182 | 68,633 |
| | July | 81,729 | 7,832 | 89,561 |
| | August | 87,141 | 9,817 | 96,958 |
| | September | 67,249 | 8,381 | 75,630 |
| | October | 63,229 | 9,015 | 72,244 |
| | November | 61,224 | 7,990 | 69,214 |
| | December | 67,602 | 10,267 | 77,869 |
| 2016 | January | 67,053 | 12,637 | 79,690 |
| | February | 62,119 | 10,611 | 72,730 |
| | March | 63,568 | 8,382 | 71,950 |
| | April | 62,982 | 4,102 | 67,084 |
| | May | 64,866 | 2,665 | 67,531 |
| | June | 74,194 | 4,734 | 78,928 |
| | July | 97,955 | 7,286 | 105,241 |
| | August | 79,053 | 10,729 | 89,782 |
| | September | 78,329 | 9,111 | 87,440 |
| | October | 57,034 | 7,557 | 64,591 |
| | November | 61,617 | 10,956 | 72,573 |
| | December | 90,745 | 15,117 | 105,862 |

*Source: Kenya National Bureau of Statistics*

**Table 27: New Vehicle registration**

| Year | Month | All body types (numbers) |
|---|---|---|
| 2014 | January | 15,366 |
| | February | 17,409 |
| | March | 25,067 |
| | April | 20,730 |
| | May | 22,837 |
| | June | 25,070 |
| | July | 21,132 |
| | August | 17,360 |
| | September | 18,596 |
| | October | 18,740 |
| | November | 23,209 |
| | December | 22,308 |
| 2015 | January | 14,652 |
| | February | 12,771 |
| | March | 10,280 |
| | April | 13,699 |
| | May | 11,855 |
| | June | 22,428 |
| | July | 23,442 |
| | August | 18,288 |
| | September | 18,527 |
| | October | 13,018 |
| | November | 27,286 |
| | December | 27,431 |
| 2016 | January | 23,889 |
| | February | 20,748 |
| | March | 27,720 |
| | April | 23,074 |
| | May | 24,720 |
| | June | 24,509 |
| | July | 29,346 |
| | August | 22,422 |
| | September | 21,137 |
| | October | 18,889 |
| | November | 22,954 |
| | December | 23,264 |
| | January | 23,676 |
| | February | 24,123 |

*Source: Kenya National Bureau of Statistics*

# Policy Options to Advance the Big 4

*Unleashing Kenya's Private Sector to Drive Inclusive Growth and Accelerate Poverty Reduction*

*The 2010 Constitution of Kenya introduced a devolved system of government aimed at better service delivery. With that foundation laid and 5 years of implementation experience, the Government of Kenya has announced an ambitious development agenda for the next 5 years anchored on "the Big 4": deliver affordable housing, roll-out universal health coverage, increase the share of manufacturing in the economy and improve food security. At this critical juncture in Kenya's development journey, it is my pleasure to present the 17th Edition of the Kenya Economic Update. The report has three key messages.*

*First, after multiple headwinds dampened growth in 2017, the incipient rebound in economic activity in Kenya is gaining momentum. Supported by improved rains, the dissipation of political uncertainty which held back investment, and the ongoing broad-based recovery in the global economy, GDP growth is expected to recover to 5.5 percent in 2018 and steadily rise to 6.1 percent by 2020. Nonetheless, downside risk to this outlook stem from fiscal slippages that could endanger macroeconomic stability, a continuation of subdued credit growth to the private sector (especially for households and small enterprises), and negative spillovers from the global economy due to tighter financial market conditions and escalation of tensions in global trade.*

*Second, though ambitious, the Big 4 can be achieved. However, significant policy reforms will be needed. This report proposes macroeconomic and sectoral policy options that could help advance delivery on the Big 4 over the medium-term. Underpinning the proposed policy options is the recognition that success will require support from both the public and especially the private sector. Hence the need to provide appropriate incentive structures, through policy reforms, to allow resources to flow to the Big 4 areas.*

*Third, policies to achieve the Big 4 could help foster inclusive growth and accelerate the pace of poverty reduction. In the special focus section of the report, macroeconomic drivers of poverty reduction in Kenya are analyzed, including an assessment of current levels against international benchmarks. The rate of poverty reduction in Kenya outpaces many in the region, but is less responsive to growth and remains higher compared to other lower-middle income countries. Growth in the agriculture sector accounted for the largest share of poverty reduction, but also revealed progress is vulnerable to climatic shocks.*

*The World Bank remains committed to working with key Kenyan stakeholders to identify policy and structural issues that will enhance inclusive growth, keep Kenya on the path to upper middle-income status, and attain its Big 4 policy objectives. The Kenya Economic Update offers a forum for such policy discussions. We hope that you will join us in debating topical policy issues that can contribute to fostering growth and shared prosperity and poverty reduction in Kenya.*

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