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Turbulent Times for Growth in Kenya

Policy Options during the COVID-19 Pandemic

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TABLE OF CONTENTS

ABBREVIATIONS	i
FOREWORD	ii
ACKNOWLEDGEMENTS	iii
EXECUTIVE SUMMARY	v
THE STATE OF KENYA'S ECONOMY	
1. Recent Economic Developments	2
1.1. A major recession is underway for the regional and global economy	2
1.2. Kenya's economic growth would be adversely impacted by the COVID-19 crisis.....	3
1.3. The authorities' plan for fiscal consolidation has been paused to address the COVID-19 crisis.....	8
1.4. Kenya's public debt stock is rising	12
1.5. Headline inflation remains low but could spike due to food supply chain disruptions	14
1.6. Kenya's external account balance is coming under pressure with expanding financing needs.....	16
2. Outlook and Risks	19
2.1. Kenya's growth outlook has been dampened by the COVID-19 pandemic	19
2.2. Risks to outlook	20
3. Policy Options during the COVID-19 Pandemic	24
3.1. Strengthening the healthcare system and improving testing capacity.....	24
3.2. Protecting the poorest and the most vulnerable.....	25
3.3. Supporting firms, protecting workers and jobs.....	26
3.4. Monetary and fiscal policies.....	27
REFERENCES	29
ANNEX TABLES	31

LIST OF FIGURES

Figure 1: Global growth is tipped for a recession in 2020	2
Figure 2: GDP growth in the EAC has slowed significantly but remains positive.....	2
Figure 3: Real GDP growth has decelerated.....	3
Figure 4: Growth in services and manufacturing will be severely impacted by the COVID-19 pandemic	3
Figure 5: Mobility changes relative to the baseline due to social distancing measures	4
Figure 6: The PMI indicates negative business sentiments	4
Figure 7: Private consumption accounts for most growth	5
Figure 8: The drag from net exports on growth is negative but much small in 2020	5
Figure 9: Baseline-2020 GDP growth of 1.5%.....	6
Figure 10: Beds per 1000 people	8
Figure 11: Number of physicians per 1000 people.....	8
Figure 12: Actual fiscal deficit is wider relative to the target.....	9
Figure 13: Budget deficits are driven by revenue shortfalls and expenditure increases.....	9
Figure 14: Average corporate tax rates (before Kenya's announced change)	11
Figure 15: Average indirect tax rates (before Kenya's announced change)	11
Figure 16: Average tax rate by tax bracket.....	12
Figure 17: Share of PIT in total expenditure by quintile.....	12
Figure 18: Average top personal income taxes in Kenya (before tax changes).....	12
Figure 19: The public debt stock has increased.....	13

Figure 20: Public debt expansion is driven by wider primary balance	13
Figure 21: The composition of Bilateral creditors has changed over time(% of external debt).....	14
Figure 22: Exposure to the US dollar (end-Dec 2019) is very high (percent of total)	14
Figure 23: Inflation is contained within the official target	15
Figure 24: Food prices have increased	15
Figure 25: Stocks Pricing in Global Recession	16
Figure 26: External financing costs rising	16
Figure 27: Credit to the private sector remains subdued.....	16
Figure 28: The cut in the CBR should support credit growth	16
Figure 29: The current account balance has narrowed	18
Figure 30: The nominal exchange rate has depreciated	18
Figure 31: Official borrowing and private investment inflows financed the current account deficit.....	18
Figure 32: Gross official foreign reserves are adequate.....	18

LIST OF TABLES

Table 1: H1 of FY2019/20 fiscal out-turn (% of GDP).....	10
Table 2: Budgetary implications of COVID-19, FY2019/20	11
Table 3: Structure of PPG external debt.....	14
Table 4: Medium term GDP growth projections	19

LIST OF BOXES

Box 1: Authorities' response to the COVID-19 pandemic.....	5
Box 2: Varying public health policy responses	7
Box 3: Features to be considered in the design of fiscal response package.....	13
Box 4: Impact of the COVID-19 pandemic and Locust invasion on food security	17

ABBREVIATIONS

AGOA	African Growth and Opportunity Act
ASAL	Arid and Semi-Arid Lands
CPI	Consumer Price Index
CBR	Central Bank Rate
EAC	East African Community
COMESA	Common Market for Eastern and Southern Africa
CIT	Corporate Income Tax
EMDEs	Emerging Markets and Developing Economies
GDP	Gross Domestic Product
GoK	Government of Kenya
ICT	Information and Communications Technology
IDA	International Development Association
IMF	International Monetary Fund
KEU	Kenya Economic Update
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MDAs	Ministries, Departments, and Agencies
NPL	Non-Performing Loans
NSE	Nairobi Security Exchange
NHIF	National Health Insurance Fund
NSNP	National Safety Net Program
NT	National Treasury
NSSF	National Social Security Fund
PFM	Public Finance Management
PMI	Purchasing Managers' Index
PIT	Personal Income Tax
PPE	Personal Protective Equipment
PPG	Public and Publicly Guaranteed
SAGAs	Semi-Autonomous Government Agencies
SGR	Standard Gauge Railway
SME	Small and Medium-Sized Enterprises
SSA	Sub-Saharan Africa
VAT	Value Added Tax



FOREWORD

The COVID-19 pandemic threatens both lives and livelihoods. Its impact on Kenya's healthcare system, society, and the economy has been rapid and generated an unprecedented degree of uncertainty. Kenya faces an uncertain path as the COVID-19 shock, in addition to inflicting tragic loss of life and direct human suffering from illness, has very large, negative economic impacts. Against this challenging backdrop, the twenty-first edition of the World Bank's Kenya Economic Update provides a detailed update of recent economic developments and the outlook, and discusses policy options to help confront the crisis.

Stepping-up spending on the health sector to strengthen the capacity to cope with potential spikes in COVID-19 cases, and to flatten the epidemic curve over the short-run through health policy containment measures, remains a top priority. The authorities have already embarked on doing this, with additional budget allocation to the health sector to expand its capacity, including by procuring additional intensive care unit beds and respiratory-support machines. The emphasis should remain on quickly and efficiently deploying the additional resources to strengthen the health system's capacity to cope the spread of the virus. A COVID-19 facility credit from the World Bank was quickly approved for \$50 million on April 2. These resources will help the Kenyan government acquire critical supplies such as personal protective equipment and testing kits. Efforts are also under way to expand the necessary facilities to deal with a potential surge in cases, which might require isolation facilities in counties, additional intensive care units and respiratory-support machines.

Measures to channel income and cash flow support to hard-hit households and firms are called for, given the scale of the economic shock, but such measures should be timely, targeted and temporary, especially since Kenya enters into this crisis with already stretched public finances. Economic policies should focus on reducing the immediate economic fallout and social pressures associated with social distancing and measures to contain the spread of COVID-19.

Like all governments around the world, the Kenyan authorities face a difficult task in the face of huge uncertainties to minimize the loss of life and livelihoods in the face of the virus. Social distancing and other containment measures have helped to delay the spread of COVID-19, likely preventing unnecessary loss of life by preventing the healthcare system from being overwhelmed and buying time to strengthen it. Nonetheless, the containment measures are also costly to incomes and jobs by reducing social interaction, production and demand. This cost is aggravated by presence of a large informal sector in Kenya (accounting for at least 70% of employment), relatively high poverty rate, and significant unemployment rate among the youth. Government will need to continue to calibrate the response across the spectrum of containment options, and in doing so can be aided by maintaining a strong focus throughout on supporting the most poor and vulnerable households, including through cash transfers.



C. Felipe Jaramillo

Country Director for Kenya, Rwanda, Somalia, and Uganda
World Bank



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EXECUTIVE SUMMARY

1. The COVID-19 global pandemic will have a large negative impact on the Kenyan economy. Even before being affected by the novel coronavirus, Kenya's economy had decelerated. The real GDP growth in 2019 was about 5.4%, down from 6.3 percent in 2018. The COVID-19 shock is expected to further reduce growth in 2020 with large impacts on services (transport, retail trade, tourism, events, leisure, etc.), industry (manufacturing and construction), and agriculture. The health system is facing an unprecedented challenge to contain the spread of COVID-19 and care for the infected. In addition, measures taken to slow down the rate of infection, including home confinement, travel restrictions, the closure of schools and entertainment spots, the suspension of public gatherings and conferences, and a nightly curfew, are expected to affect both production and consumption across the economy.

2. Social distancing measures can be very successful in delaying the spread of COVID-19, which is desirable as the country strengthens its healthcare system capacity. Nonetheless, it is also very costly to the economy. This cost is aggravated by the presence of a large informal sector, high poverty rate, and unemployed youth population (about 70 percent of the total population is below 30 years old). While Kenya's social safety net is still nascent, and targeting of vulnerable households for interventions considerably challenging, urgent action is needed to provide poor households with food, water, and other basic supplies to cope with the crisis. This KEU looks at the array of health policy responses to flatten the COVID-19 infection curve, starting from the most voluntary / individual response choice (the Swedish model) to a complete lockdown (the Wuhan-China model). This policy decision is very impactful on the economy, survival of the informal sector and SMSEs, and households' livelihoods. The trade-offs are enormous but selecting a variation that works for Kenya's specific context is even more critical.

3. Macroeconomic policy during the crisis period could seek to achieve two key objectives. First, stepped-up spending on the health sector to strengthen the capacity to cope with potential spikes in COVID-19 cases, and to flatten the epidemic curve over the short-

run by supporting health policy responses for effective containment of the epidemic spreading. Secondly, pivot towards addressing the economic fallout and social pressures associated with social distancing and shutdown measures to contain the spread of COVID-19. Ensuring that vulnerable households have cash-on-hand, workers continue to receive salaries - even when temporarily laid-off-and ensuring that firms have enough cashflow (to pay workers and suppliers) and avoid bankruptcies, as well as supporting the financial system to avoid a credit crunch, are all important. These measures are discussed in detail at the policy section of this KEU.

4. Kenya's medium-term growth prospects will be impacted by COVID-19, and much remains uncertain about the magnitude. The outlook adjusts for the negative impact of COVID-19 on Kenya's growth in 2020, whilst assuming that the economy will be able to rebound relatively quickly and return close to its trend growth rate. However, the situation is evolving quickly, both in Kenya and in the global economy and the global economy is tipped for a recession in 2020,¹ with significant negative spillovers on Kenya. As a result, the World Bank's GDP growth scenario for 2020 is for a baseline of 1.5 percent, before rebounding to about 5.6 percent over the medium term, on assumption that investor confidence will be restored soon after the COVID-19 pandemic is contained. Growth is also predicated on normal weather that should be supportive of agricultural output and that a swift and well targeted policy response to COVID-19, will support the economy's resilience. An adverse scenario of a recession of about -1.0 percent is also presented on assumption of significant supply and demand shocks with feedback stemming from each of these forces. To put the adverse scenario into context, it is expected that the shock will be larger and reduce growth below that of 2008, when Kenya grew by 0.2% (from 6.9 percent in 2007) as a result of post-election violence, drought, and the global financial crisis.

5. Risks to the growth outlook remains on the downside. The greatest uncertainty to Kenya is the extent of the impact of COVID-19 global pandemic. Kenya is only at the beginning of a very uncertain path as the COVID-19

¹ <https://www.imf.org/en/Publications/WEQ/Issues/2020/04/14/weo-april-2020>

shock is expected to significantly reduce growth. A more severe global recession due to the virus would undermine Kenya's export demand, tourism receipts and remittance inflows. Other residual downward risks include possible fiscal slippages and weather-related shocks. Unanticipated large-scale community transmission of COVID-19 together with likely tougher government measures (like full lockdowns) and extension of restrictions for a longer time, could disrupt domestic economic activity more severely and reduce growth below the baseline. The extent of the COVID-19's impact on the economy could add excess fiscal pressures resulting into another round of fiscal slippage, which could derail efforts to contain debt growth and further crowd out private sector-led growth after the crisis. Drought and a second-round of locust invasion (in mid-year), if they materialized, could also reduce agricultural output and hurt rural incomes.

6. Several policy options could be deployed to care for those infected, to support firms, and to protect the most vulnerable households to cope with the crisis.

The top priority is to care for those infected and contain the spread of the virus. Some of the COVID-19 health policy responses (self-quarantine, school closures, wearing masks, increasing cleanliness, social distancing, and a nighttime curfew) should help decrease the replication rate of the disease. Given existing capacity of Kenya's health care systems, these containment policies are also key to buy authorities time to ramp-up investment in hospital infrastructure (increase number of intensive care beds, put up temporary isolation facilities in counties, obtain respiratory-support machines, stock up essential medicines, procure medical testing kits, preventive kits among others.). In addition, ramping up testing and isolation, collecting the right data (through testing) and conducting extensive statistical analysis can help save many lives. Evidence from South Korea suggests that embarking on massive testing and imposing self-quarantine for those testing positive and isolating the most vulnerable (the elderly) from exposure could contain the spread.

7. Increasing support to poor and the most vulnerable households is another crucial policy action.

The hardship from the crisis would disproportionately befall the poorest and most vulnerable groups in Kenya. They do not have resources to cope with the lockdowns and quarantines needed to contain the spread of the

pandemic. Many depend on farming (for rural), self-employment and informal wages (for the urban). They have limited coverage of pension and unemployment insurance schemes, which makes most restrictive containment measures less effective. Protecting earnings and reaching them through transfers is also considerably more challenging due to lack of physical addresses and a lack of updated household welfare registers. Kenya is in an advantaged position, however, because it has social protection and social assistance programs covering approximately 1.2 million households that can be scaled up to extend coverage. Unfortunately, there is no specific social safety net program in place for slum dwellers and urban poor/informal sector workers, which seem to be among the most affected subgroup of the population because of the initial movement restrictions imposed. The combination of available cash transfer schemes (for scaling up) and sufficient coverage of mobile payments should be maximized in protecting the poor and the most vulnerable households.

8. It is also important for the authorities to ensure that the food value chain remains intact by addressing key logistics bottlenecks.

The COVID-19 crisis could contribute to increased food insecurity as prices of staples are rising (with a recent uptick in food inflation to around 10.6 percent in March 2020 from about 2.8 percent in the same month in 2019). With the introduction of a nighttime curfew and lockdown in some counties, it is important for the Government of Kenya (GoK) to minimize logistics disruptions so that major staple commodities can move across counties without barriers and frictions, which can lead to increased prices. It is also important to take advantage of the stable global food supply markets to close any gaps in main staples (rice, wheat, maize, and beans).²

9. The COVID-19 crisis is damaging otherwise healthy firms through four channels: Falling demand and revenues, reduced input supply, tightening of credit conditions, and increased uncertainty.

Protecting jobs and firms to cope with the pandemic is important. The government has already implemented several measures to support formal firms' liquidity and cashflow including tax cuts (Corporate income TAX (CIT), and turnover rates), expediting Value added Tax (VAT) refunds and payment of pending bills. These measures can be critical to help firms survive, considering that many firms were already

² <http://www.amis-outlook.org/>: global prices of wheat and maize have been trending downward through March, rice has been trending upward.

facing liquidity challenges. Making these liquidity injections into formal businesses in a timely manner could make the difference between having a small uptick in unemployment or a significant rise in the numbers of unemployed and a delayed recovery, post-crisis.

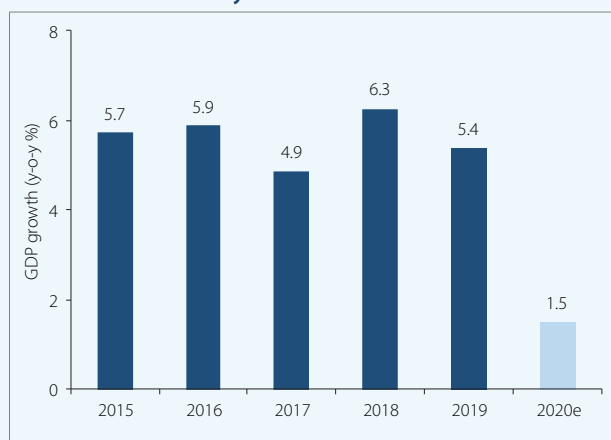
10. Finally, monetary policy easing and exercising regulatory forbearance might be necessary as long as conditions remain difficult. Core inflation is low, and the output gap remains sharply negative. There is room for monetary stimulus to support economic activity, and the CBK has begun to implement this, starting with the decision of the Monetary Policy Committee (MPC) to lower the CBK rate to 7.25 percent on March 23. While

the crisis is likely to lead to another round of increased non-performing loans, lower interest rates will stimulate activity generally, helping ease the burden on businesses whose activities have been disrupted. It may also be appropriate to provide more liquidity support to banks that are likely to be affected by deterioration of credit quality or facing funding pressure while at the same time experiencing urgent demand for short-term credit from Small and Medium-Sized Enterprises (SME) and other firms. The CBK could also support efforts enabling banks to provide temporary relief to ease borrowers' financing constraints (in 2020), helping support activity and avoiding a sharp increase in non-performing loans (NPLs).



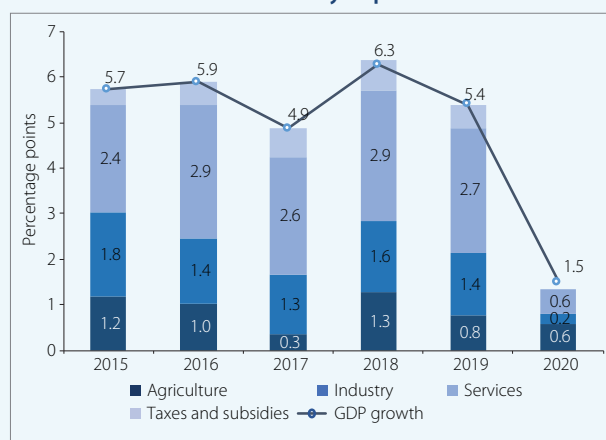
RECENT ECONOMIC TRENDS AND OUTLOOK

Real GDP growth will be negatively impacted by COVID-19 crisis



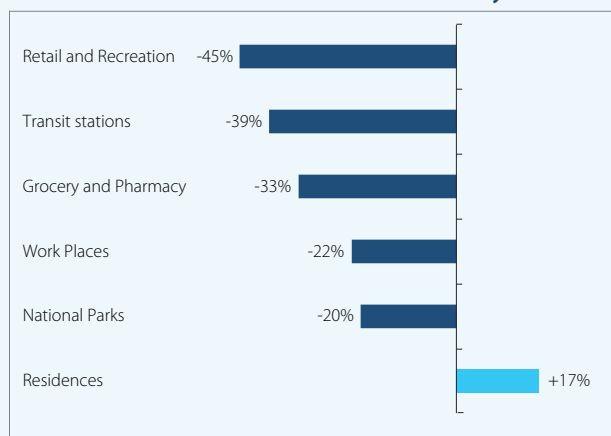
Source: Kenya National Bureau of Statistics and World Bank
Note: "e" denotes an estimate

Growth of services and manufacturing sectors will be severely impacted



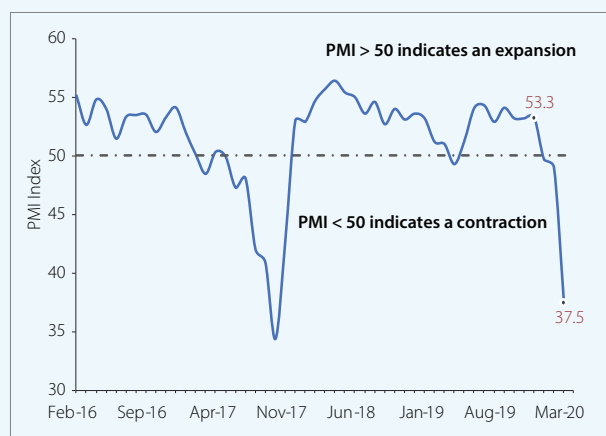
Source: Kenya National Bureau of Statistics and World Bank

Mobility changes due to social distancing measures show a decrease in economic activity



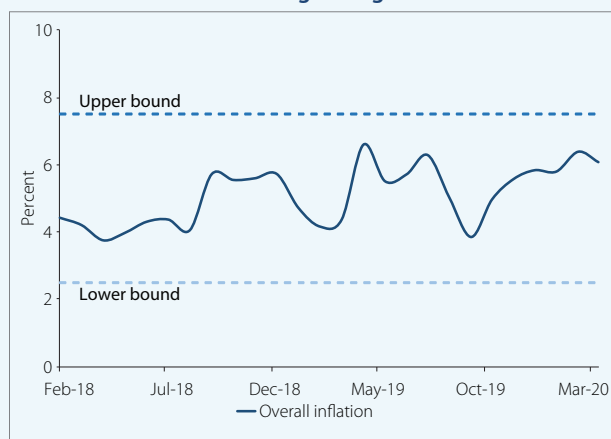
Source: https://www.gstatic.com/covid19/mobility/2020-03-29_KE_Mobility_Report_en.pdf

Kenya's PMI indicates negative business sentiment in 2020



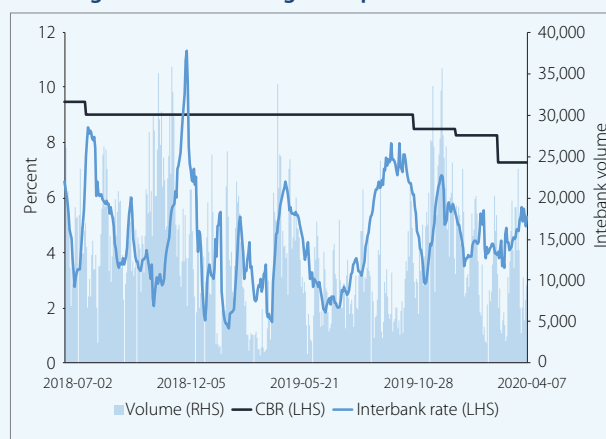
Source: CFC Stanbic Bank

Inflation has picked up but remains within the target range



Source: Kenya National Bureau of Statistics and World Bank

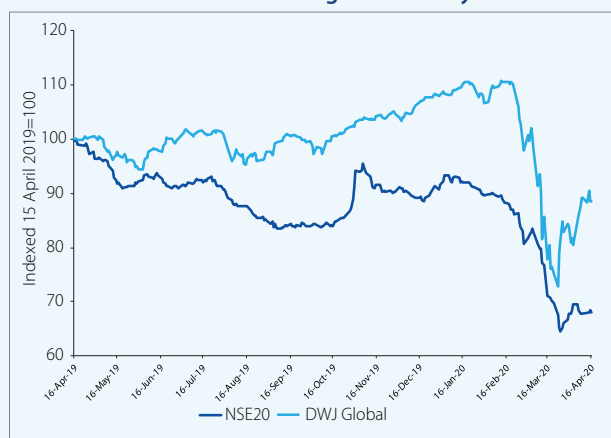
The CBK has reduced the policy rate to support economic growth and to mitigate impact of COVID-19



Source: Central Bank of Kenya

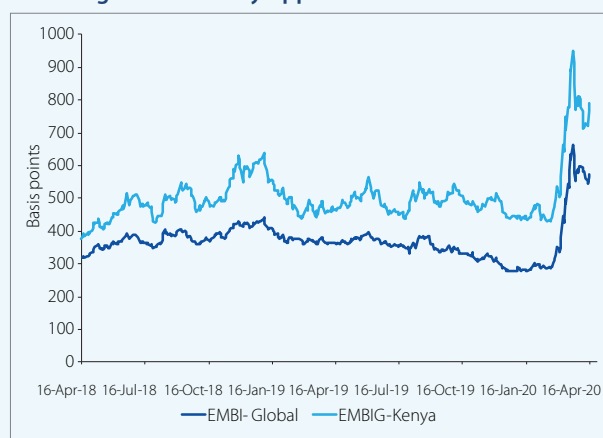
RECENT ECONOMIC TRENDS AND OUTLOOK

Dollar financing costs for Kenya and other emerging markets are rising dramatically



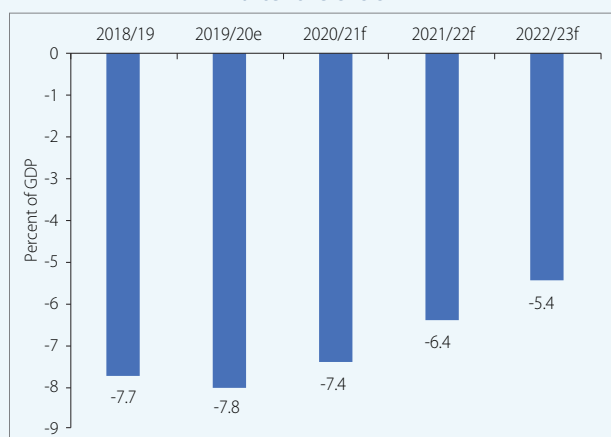
Source: JP Morgan

The NSE 20 share index reflects investors' assessment of the global economy tipped for a recession in 2020



Source: Haver

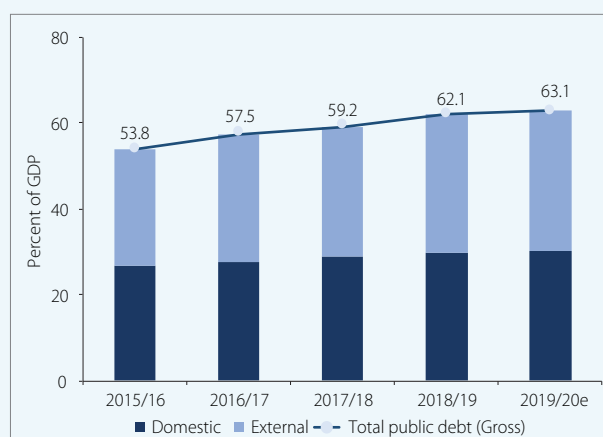
Fiscal consolidation has been deferred until after the crisis



Source: The National Treasury

Notes: * indicates preliminary results, "e" denotes an estimate, "f" denotes forecast

The stock of public debt is increasing



Source: The National Treasury

Notes: * indicates preliminary results, "e" denotes an estimate, "f" denotes forecast

The State of Kenya's Economy



1. Recent Economic Developments

1.1. A major recession is underway for the regional and global economy

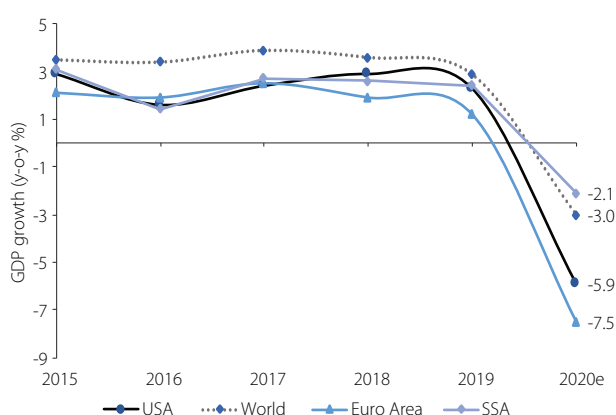
1.1.1. The global economy is projected to fall into a recession due to COVID-19 shocks. The COVID-19 virus and responses to it such as social distancing measures and countrywide lockdowns are generating a negative supply shock to the global economy. Industries have shut operations, global production and transport chains are being disrupted, and consumer demand is suppressed.³ This unanticipated shock will lead to a major downward revision of the World Bank's baseline global growth projection for 2020, which prior to the crisis was 2.5 percent.⁴ The expectation of a global recession reflects major negative impacts from the pandemic in both the advanced and emerging market and developing economies (EMDEs), including China. Simulations suggest that the COVID-19 shock would be greater than the global financial crisis, when global output contracted by 1.7 percent in 2009. The recent collapse in the price of oil is also expected to weigh heavily on the growth of oil exporters.

1.1.2. Growth in sub-Saharan Africa (SSA) is projected to slip into its first recession in 25 years.⁵ Average growth is expected to decline from 2.4 percent in 2019 to a range of between -2.1 and -5.1 percent in 2020. This translates to a loss in output of between US\$ 37 billion and US\$ 79 billion. The downward revision reflects deteriorated external demand following a sharp contraction in output growth among the region's key trading partners (China and Europe), a fall in commodity prices (oil and metals),

reduced tourism receipts, as well as the effect of measures taken to contain the spread of COVID-19 pandemic. Prices of crude oil and metals have decreased by about 50 percent and 11 percent, respectively, between December 2019 and March 2020, adversely affecting exports and revenue for Nigeria and Angola (major oil exporters) as well as South Africa (a large metal exporter). In non-resource intensive economies, growth is expected to slow down significantly but remain positive. The weakening of growth reflects weak external demand, disrupted supply chains, and falling domestic demand.

1.1.3. The East African Community (EAC) is expected to post significantly slower growth in 2020 due to the pandemic. As of April 22nd, the number of COVID-19 cases in the EAC is estimated at 802, with the following distribution: Kenya (296), Rwanda (150), Uganda (61), Tanzania (284), and Burundi (11). Countries have adopted various strategies of containing the spread of COVID-19 including a ban on international flights, closure of schools, barring large gatherings, nightly curfews, and outright lockdowns. Tanzania has imposed the least stringent measures of social distancing, while Rwanda and Uganda have introduced the most restrictive containment measures, including complete lockdowns. The combination of a severe external demand shock and domestic demand shocks associated with the public health measure taken to contain the spread of COVID-19 are expected to reduce growth to an average of 3.1 percent in 2020, down from about 5.8 percent in 2019.

Figure 1: Global growth is tipped for a recession in 2020



Source: World Bank, Springs 2020 MFMOD (unpublished) and IMF (World Economic Outlook, April 2020)

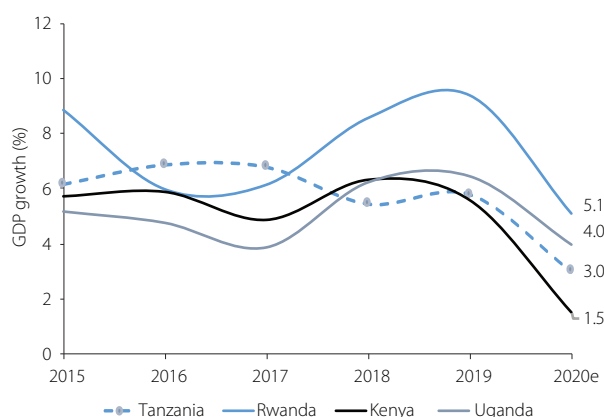
Note: EAC average growth excludes South Sudan

³ Fornaro and Wolf (2020); Richard Baldwin, Beatrice Weder di Mauro (2020).

⁴ <https://www.worldbank.org/en/publication/global-economic-prospects>. An update to Jan 2020 GEP will only be released in June 2020. The IMF WEO (April 2020) projects a global recession of -3.0 percent.

⁵ World Bank, April 2020: Africa's Pulse.

Figure 2: GDP growth in the EAC has slowed significantly but remains positive



1.2. Kenya's economic growth would be adversely impacted by the COVID-19 crisis

1.2.1. Even before being affected by the COVID-19 pandemic shock, Kenya's economy had decelerated. The economy expanded by 5.4 percent in 2019, down from 6.3 percent in 2018 (Figure 3). The slower growth was associated with underperformance in agriculture (due to poor rains) and private investment, which weakened due to crowding out from widening fiscal deficits and, relatedly, limited private sector credit growth (7.1 percent year-on-year in December 2019). Nonetheless, strong performance in the services sector helped overcome a slowdown in agricultural output (Figure 4). This represents a 0.4 percentage point downward revision compared to the October 2019 Kenya Economic Update estimate.⁶

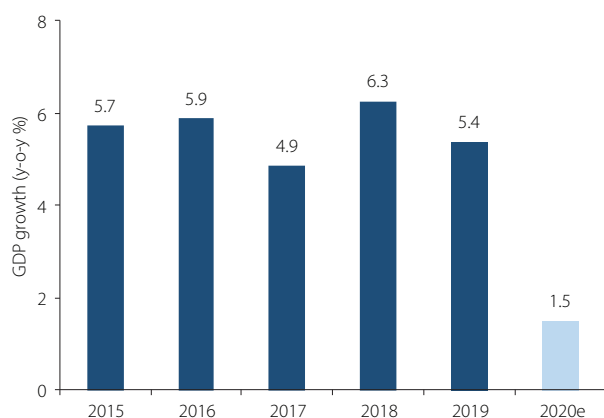
1.2.2. The COVID-19 global pandemic will have a large negative impact on Kenya's real GDP growth in 2020. Economic activity is weighed down by a combination of supply and demand shocks originating from both the external and domestic fronts. On the external side, supply and demand shocks are being transmitted through several channels:

- Global supply chains are being disrupted, reducing the availability of intermediate and capital goods, as a result of shutdowns in the source countries, and transport disruptions. Kenya's monthly imports, notably from China, contracted sharply in the months of January-March 2020. A large share of retail goods in Kenya are shipped in from China and shortages of these goods could raise consumer prices.

- Kenya's goods exports (horticulture, tea and coffee) are coming under pressure. Flower exports have already been hit hard, including due to the disruption to what would normally be peak Mother's Day demand in Europe.
- Reduced tourism earnings. As a result in 2020 tourist arrivals is expected to decline sharply.
- A slowdown in remittance inflows: Although they remained broadly steady as of January-March 2020, remittances could come under pressure due to adverse effects on the economies where the Kenyan diaspora is working. Kenya recorded remittances of \$2.9bn in 2019 (2.9 percent of GDP), with the bulk of remittances coming from the UK (34 percent) and the US (30 percent). Remittances had been growing rapidly (doubling since 2014).

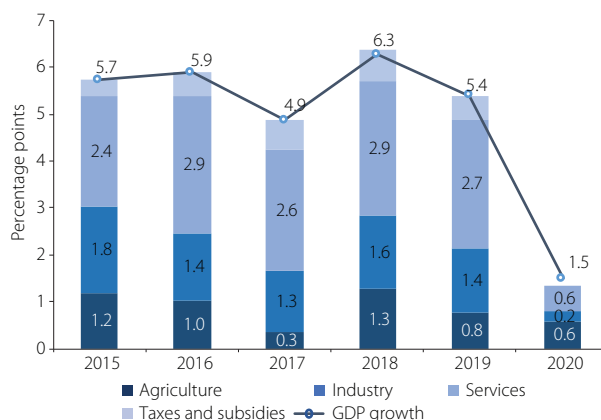
1.2.3. The above external shock has been reinforced by an even stronger domestic demand and supply shock, weighing down the economy significantly. Initially, COVID-19 looked like an external demand and supply shock (i.e. decline in commodity prices, falling demand for exports -including for services like tourism, disruption in the global supply chains). However, the policies that have been needed to contain the spread of the virus (i.e. social distancing, home confinement, travel restrictions, closure of schools, closure of bars and restaurants, suspension of public gathering and conferences, and a nightly curfew) being deployed to delay the spread of COVID-19 (Box 1) are constraining domestic demand. In this situation, households tend to ramp-up their precautionary savings, while firms wary of investing until the crisis clears with

Figure 3: Real GDP growth has decelerated



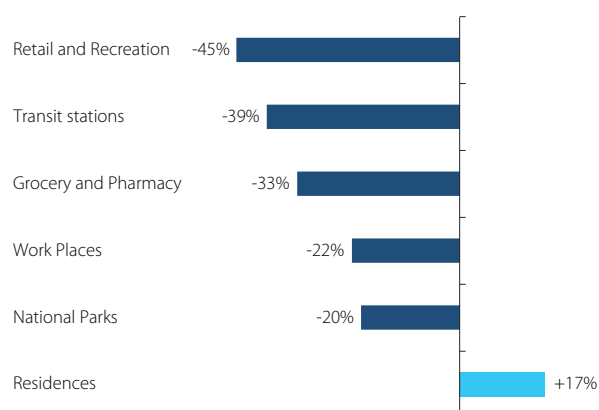
Source: World Bank, Kenya National Bureau of Statistics

Figure 4: Growth in services and manufacturing will be severely impacted by the COVID-19 pandemic



Source: World Bank, Kenya National Bureau of Statistics

⁶ World Bank. (2019). Kenya Economic Update Edition 20.

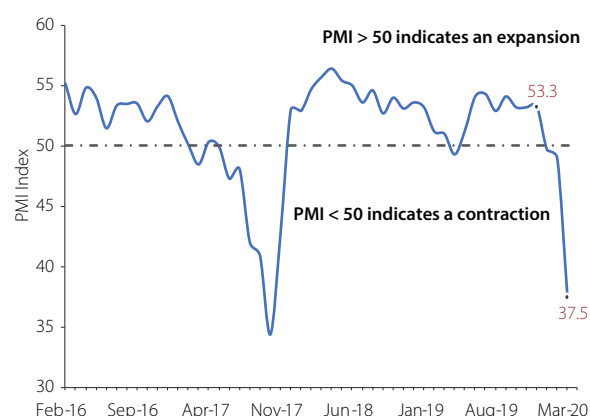
Figure 5: Mobility changes relative to the baseline due to social distancing measures

Source: https://www.gstatic.com/covid19/mobility/2020-03-29_KE_Mobility_Report_en.pdf

negative impacts on aggregate demand. There are also feedback loops into a domestic supply shock, as firms that are dependent on cashflows lack liquidity to fulfil commitments (pay salaries and suppliers) due to falling demand and could end up closing down due to bankruptcy.

1.2.4. In 2020, growth performance of services and manufacturing will be severely impacted by the COVID-19 pandemic. Actual data on the impact of COVID-19 on the value added across sectors is not yet available, but preliminary high frequency data indicates a significant slowdown in services and manufacturing. Retail and wholesale, transportation, accommodation and restaurants have been adversely affected by public health measures to contain the spread of COVID-19. Mobility trends relative to pre-COVID-19 for Kenyans to restaurants, cafes, shopping centers, theme parks, museums and movie theatres have contracted by up to 45 percent (Figure 5). Similarly, mobility trends to public transport stages, grocery and farmers markets, workplaces, and National parks have all been negatively affected. Mobility around residences has increased by 17 percent relative to the baseline reflecting working from home policies and closure of schools and other entertainment spots.

1.2.5. The Purchasing Manager's Index (PMI) has fallen below the 50-points mark indicating declining orders and growing negative business sentiment in the manufacturing sector. The PMI has fallen below the 50-point mark for the second consecutive month (February and March 2020), dropping from about 53.3 points in December 2019 to 37.5 points in March 2020. In 2019, the

Figure 6: The PMI indicates negative business sentiments

Source: Stanbic data

underperformance in agricultural output affected agro-processing, with food experiencing the largest decrease (sugar, maize flour, processed fish and dairy) among all manufacturing activities. In 2020, we expect agro-processing to be nominally affected due to the food supply chains disruption to contain the spread of COVID-19. Manufacturing of non-food items (such as cement, leather, assembly and sheet metal) will also get hit hard due to global supply chain disruptions for intermediate goods and other inputs. Domestic factors such as tight credit conditions, delays in obtaining tax refunds, and weaker demand are also likely to constrain manufacturing.

1.2.6. On the demand side, private consumption has historically accounted for a large share (up to 77 percent) of GDP and real GDP growth (Figure 7) but this is expected to slow down significantly in 2020 due to the pandemic. Strong private consumption is associated with better agricultural harvests, and a sizeable diaspora remittances inflow (estimated at 2.9 percent of GDP in 2019) and continued (albeit slow) access to micro credit.⁷ The solid pace of household consumption growth is positive in as much as it reflects rising disposable incomes in Kenya, in turn due to the economy creating more and better jobs. Nonetheless, with COVID-19 impacting on remittances and creating greater uncertainty around job security, and the longevity of measures put in place to contain the spread of the disease, private consumption is expected to decrease markedly in 2020.

1.2.7. COVID-19 is expected to constrain the contribution of investment to growth as the private sector waits for the crisis to clear and faces potential

⁷ Micro-credit is provided through mobile platform such as Mshwari by NCBA and Safaricom, Equitel by Equity Bank and Fuliza provided by Safaricom, among others.

Box 1: Authorities' response to the COVID-19 pandemic

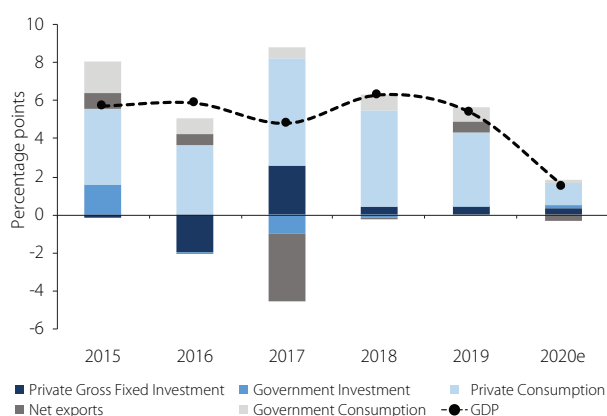
- **Health-related measures:** An inter-ministerial committee was established in late February to co-ordinate and undertake measures aimed at containing the spread of COVID-19 and strengthening the capacity of the health system. The committee's mission includes enhancing preparedness by equipping hospitals, coordinating all activities related to Kenya's response, enhancing surveillance at Kenya's ports of entry, coordinating supply of testing kits and critical medical supplies including masks and protective gear. All measures taken have been communicated in daily press briefings.
- The government has taken measures aimed at reducing risks of community transmission of COVID-19, including suspension of all international flights, shutting national borders to all but nationals, established isolation facilities, quarantine of at-risk persons, closure of schools and universities, implementation of social distancing measures, encouraging home based working, and a nighttime curfew.
- **Fiscal policy response:** Additional spending to strengthen the health system, protect vulnerable households and ease firms' liquidity constraints, include appropriations of Ksh.39.8 billion (0.4% of GDP). Ksh.6.8 billion of this spending was allocated to the health sector, most of which is covered by a US\$ 50 million IDA credit through the COVID-19 emergency response package, approved by the Board in late March 2020. Other outlays include Ksh.13.8 billion to clear pending bills, Ksh.10 billion for VAT refunds, and Ksh.10 billion to scale up cash transfers to vulnerable households.
- The National Treasury (NT) has submitted and Parliament approved a package of tax measures, including full income tax relief for persons earning a gross monthly income of up to Ksh.24,000 (or US\$ 225); reduction of corporate and individual income tax rate (PAYE) from 30 percent to 25 percent; reduction of turnover tax rate on all micro, small and medium enterprises (MSMEs) from 3 percent to 1 percent; and a reduction of the standard VAT rate from 16 to 14 percent. The annual costs of these tax cuts are estimated at 1.5 percent of GDP. The authorities intend to fully offset the revenue lost by removal of tax exemptions.
- The fiscal framework is being adjusted through a supplementary budget under preparation, including a relaxation of the fiscal deficit to 8 percent of GDP in FY2019/20 from the previous target of 6.3 percent of GDP. Further expenditure savings are expected to be realized through realignment of capital expenditures and postponement of low-priority projects.
- **Monetary policy response:** Additional monetary stimulus and liquidity support by the CBK, including reduction of the policy rate (CBR) to 7.25 percent from 8.25 percent; reduction of the cash reserve ratio to 4.25 percent from 5.25 percent; and granting of flexibility to banks on provisioning requirements for loans restructured due to the pandemic.
- Extending flexibility to borrowers on loan terms based on individual circumstances arising from the pandemic; and setting fees for mobile transactions in amounts less than Ksh.1000 at zero to disincentivize use of cash.

Source: World Bank staff

liquidity constraints. Private investment contribution's to growth has been weak in the past years. For example in 2019, it is estimated that the component accounted for about 0.4 percentage points of GDP, similar to its 2018 level (Figure 7). In 2020, most firms wary of investing until the

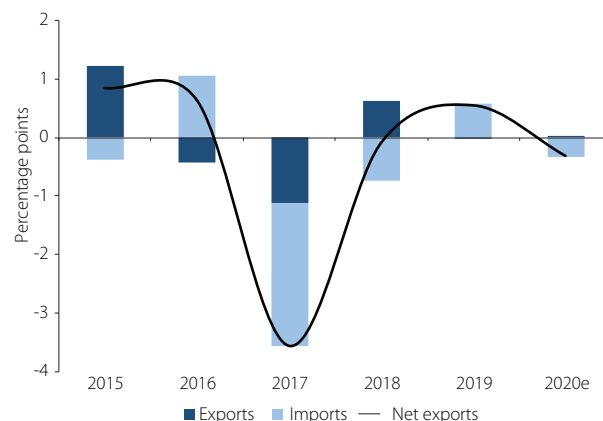
COVID-19 situation clears but more fundamental they face low demand as a result of social distancing measures. Small businesses that are dependent on cashflow (i.e. cashflow to asset ratio is high) are likely to run out of liquidity to fulfil their commitments, as demand crashes. Public

Figure 7: Private consumption accounts for most growth



Source: World Bank, Kenya National Bureau of Statistics

Figure 8: The drag from net exports on growth is negative but much small in 2020



Source: World Bank, Kenya National Bureau of Statistics

investment is also expected to slow down significantly as civil works will be delayed by global supply disruptions and the limited supply of labor associated with COVID-19. The GoK is also in the process of readjusting its development budget to create space for more pressing health related expenditures, which will affect public investment.

1.2.8. Historically, net exports' contribution to real GDP growth is negative as import volume is larger than export volume. The extent of the drag of net exports depends on the volume of imports, because export volume is largely stable and has been falling more recently, especially manufacturing exports. In fact, as a share of GDP, exports of goods and services have contracted from 19.7 percent in 2018 to about 15.7 percent in 2019 and that decline will continue in 2020, owing in part to weak external demand, but also due to a significant contraction in manufacturing exports (estimated at 2.1 percent of GDP in 2019). On the other hand, import volume is expected to decrease from 20.4 percent of GDP in 2019 to about 18.8 percent of GDP in 2020, partly due to a lower oil import bill and reduced imports of capital and transportation equipment but also due to the COVID-19 shock resulting in reduced imports of consumer goods. As a result, the drag of net exports on growth in 2020 is approximately 0.3 percentage points, which is lower relative to an estimated drag of 0.5 percentage points in 2019 (Figure 8).

Implications to growth estimate for 2020

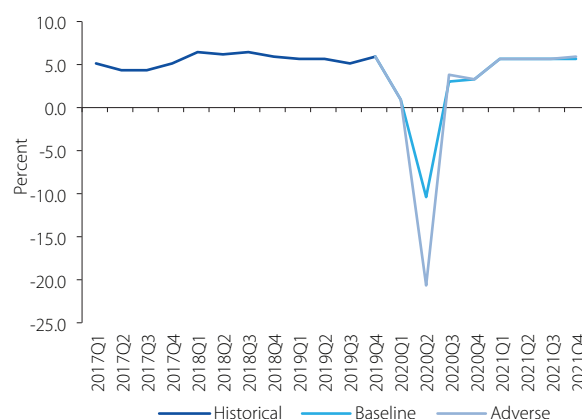
1.2.9. Projections of Kenya's economic growth rate are currently highly uncertain. The economic outcome will hinge on how the pandemic plays out internationally and within Kenya, along with policy actions, and the responses of households and firms. The elevated uncertainty regarding the growth outlook makes it appropriate to consider different plausible scenarios, and their implications for the economy.

1.2.10. In the first scenario, economic activity is assumed to be severely disrupted for two months, followed by a relatively rapid normalization. Severe disruption to economic activity is considered to have begun in mid-March, affecting the last two weeks of the first quarter, and is assumed to extend for the first six weeks of the second quarter (i.e. through mid-May). During the period of severe disruption, estimated decreases in economic activity and value-added are applied, ranging from above 50 percent in the hardest-hit areas of the economy (e.g. accommodation and restaurants, wholesale

and retail trade, transport), to only small reductions in the areas expected to be most resilient to COVID-19 impacts (e.g. agriculture, public administration). Projections also incorporate estimates regarding the scope for activity in sectors to rebound after the period of disruption, which is expected to be significant, for example, in sectors like construction and manufacturing, but low in the hospitality industry (reflecting in part the likelihood that the industry recovers only slowly at the global level).

1.2.11. In the second scenario, economic activity is assumed to be severely disrupted for a longer, 3-month period. In this case, the period of major disruption extends from mid-March through mid-June, resulting in larger estimated reductions in value-added across affected sectors in the current (second) quarter. The period of severe disruption is also extended beyond this for the hospitality sector, to approximately six months. As a result, real GDP in 2020 is projected to expand by 1.5 percent in scenario one, and to contract by 1.0 percent in scenario two (Figure 9). The wide range in these projections is indicative of the sensitivity of the growth outlook to how widespread COVID-19 becomes in the country, the intensity and duration of social distancing measures that are slowing down economic activity, and global developments.

Figure 9: Baseline-2020 GDP growth of 1.5%



Source: World Bank

The trade-offs between strict lockdown and citizen's tolerance for containment measures

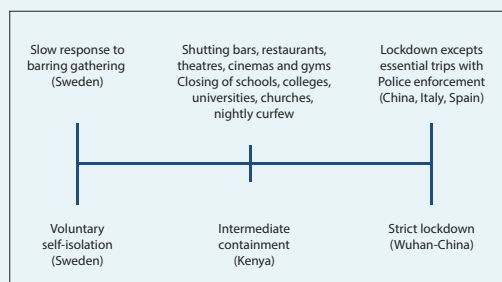
1.2.12. The social distancing measures are viewed favorably in delaying the spread of COVID-19, which is necessary as the country ramps-up investment to strengthen the capacity of its health care system. The timing of these containment measures is even more important than the measures themselves. The Kenyan government acted swiftly to put in place containment of the spread of

the disease immediately after the first case on March 13, which explains why after more than a month since the first COVID-19 case, Kenya has about 296 confirmed cases. By contrast to Kenya, countries in the advanced economies, unfortunately “closed the barn door after the horses were out”, since they imposed the lock down when they had already had thousands of cases. Furthermore, some containment strategies make sense in certain phases of the epidemic but not in others. For example, tracing all cases and isolating them makes sense when you still have relatively few cases. However, once a country reaches higher numbers this strategy is just not practical. It is for this reason that countries have adopted various public health responses, and we show that Kenya is viewed to lie in the intermediate containment space (Box 2).

1.2.13. Containment measures have the main objective of flattening the epidemic curve over the short-run and allow strengthening of the country's health care system to cope with the number of patients requiring critical care. Nonetheless, these measures are also quite costly to the economy. This cost is aggravated by presence of a large informal sector, high poverty rate, significant unemployment, and a youthful population (about 70 percent of total population is below 30 years). Many households depend on farming, self-employment and informal wage. Protecting their earnings and reaching households through cash transfers is essential to ensure containment measures receive support. This is important because citizen's tolerance of containment measures is quite short-term.⁸

Box 2: Varying public health policy responses

Different social distancing policies have been implemented across nations, with varying effects. There is still some flexibility in the policies but there is a strong call for more stricter containment measures to flatten the epidemiologist infections curve. Everybody needs to do more, “Not testing alone. Not contact tracing alone. Not quarantine alone. Not social distancing alone. Do it all.” Says WHO Director General Tedros Adhanom Ghebreyesus. In Kenya, the stringency of measures adopted to date places the country at the intermediate range. More recently, it is becoming clear of the need for developing countries to customize COVID-19 spread containment measures to reflect local context and constraints faced by governments such as limited fiscal space, and much less operational capacity to respond to help households and firms weather the crisis.⁽¹⁾



The Sweden model (voluntary isolation): In Sweden restaurants and bars remain open, playgrounds and schools too, and the government is relying on voluntary action from its citizens to prevent the spread of COVID-19. Much of Sweden's focus has been to protect the elderly. Anyone aged 70 or older has been urged to stay at home and limit social contact.⁽²⁾ The WHO is skeptical of this approach, which is against its recommended lockdown measures to control the spread and strengthen the capacity of the health system to cope. The jury is still out on whether the strategy adopted by Sweden will work or not. Nonetheless, Sweden had various strengths before the crisis. For instance, it is estimated that some 40% of the country's workforce worked from home regularly, even before COVID-19 and that the country has one of the most generous welfare safety nets. For example, state support kicks in on day one of absence from work due to a child being sick.

The Wuhan-China Model (Strict lockdown): On January 23, 2020, authorities shut down Wuhan-the epicenter of COVID-19. Lockdown measures were also extended to other parts of surrounding Hubei province. On February 13, changes in counting methods caused a surge in reporting with 15,133 new cases, but 12 days later the official reported new cases begun to decrease. On March 24, authorities announced that Wuhan lockdown will be lifted on April 8. New cases of transmission dropped to zero about 8 weeks after the country's massive quarantine of some 60 million people in Hubei province. What the numbers don't reveal, however, is the sheer deprivation the strict containment measures inflicted on Wuhan residents. Small businesses teetered on the verge of bankruptcy.

⁽¹⁾ <https://www.worldbank.org/en/region/afr/publication/africas-pulse>

⁽²⁾ <https://edition.cnn.com/2020/04/10/europe/sweden-lockdown-turmp-intl/index.html>

Source: World Bank staff

⁸ <https://voxeu.org/article/remobilising-workforce-world-war-covid>

1.2.14. It is critical for the authorities to use the current attempt to slow down the pandemic progress to strengthen the healthcare system. Like many developing economies, Kenya faces higher risks with much lower health system capacity (e.g. fewer beds per population (Figure 10), intensive care units, physicians per 1000 people (Figure 11), and respiratory-support machines). The authorities have already embarked on doing this with an additional budget allocation to the health sector to expand its infrastructure, procure additional ICU beds and respiratory-support machines to help manage a potential spike in the COVID-19 infection. Nonetheless, doing this more efficiently including identifying temporary isolation facilities in counties, moving faster in the procurement of ventilators, and supplying of testing kits will make the difference.

1.2.15. Investing in testing and isolating those that test positive could help contain the spread of COVID-19, potentially delivering similar outcomes as a strict lockdown. Evidence from South Korea, Taiwan, and Singapore suggests that embarking on massive testing and imposing self-quarantine for those testing positive and isolating the most vulnerable (the elderly) from exposure could contain the spread without resorting to a full lockdown.⁹ Testing of random representative samples will also help authorities learn the most contagious groups and isolate the vulnerable types. Furthermore, identifying the severity of infections¹⁰ across Kenya's demographic characteristics could help remobilize the population for a return to production and restore aggregate demand. Further, if the contagion is concentrated in specific counties (e.g. Nairobi, Mombasa, Kilifi, Manderu etc), then authorities

could redistribute the non-pandemic related intensive care to other relatively safer counties.

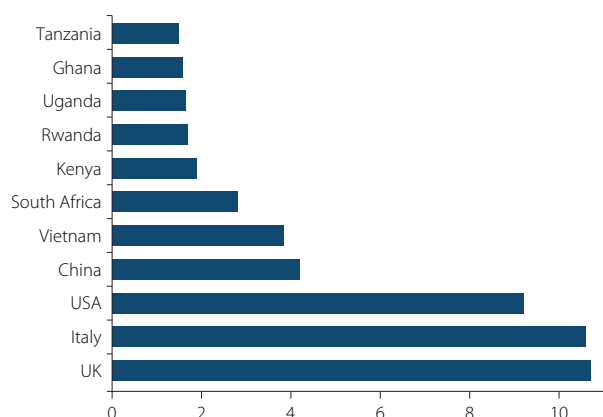
1.3. The authorities' plan for fiscal consolidation has been paused to address the COVID-19 crisis

1.3.1. Adequate policy responses to counter COVID-19 carry fiscal costs. Although the government remains focused on maintaining fiscal sustainability and reducing debt-to-GDP to about 50 percent over the medium term, the exogenous shock imposed by the COVID-19 pandemic makes fiscal consolidation considerably more difficult, as the shock will negatively impact revenue collection and increase expenditure pressures.

1.3.2. Before the outbreak of COVID-19, the fiscal deficit had expanded to 7.7 percent of GDP in FY2018/19 (from 7.4 percent in FY2017/18) and nominal public debt increased to 62.4 percent in December 2019. However, starting in late 2019, the government had expanded its revenue collection and tightened expenditure controls, which were expected to reduce the budget deficit by some 1.4 percentage points to 6.3 percent of GDP in 2019/20 (Figure 12) and contain debt from growing. This steep consolidation was predicated on a combination of revenue measures (including a one-off transfer of 0.7% of GDP dividends from state-owned enterprises) and expenditure rationalization measures.

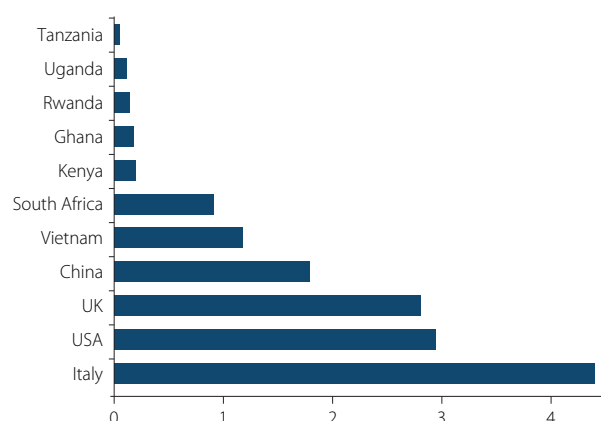
1.3.3. Revenue collection in the first half of FY2019/20 had improved with year-on-year revenue collection growing by 15.9 percent in December 2019 (above the growth of nominal GDP). Nonetheless, total revenue was

Figure 10: Beds per 1000 people



Source: World Bank

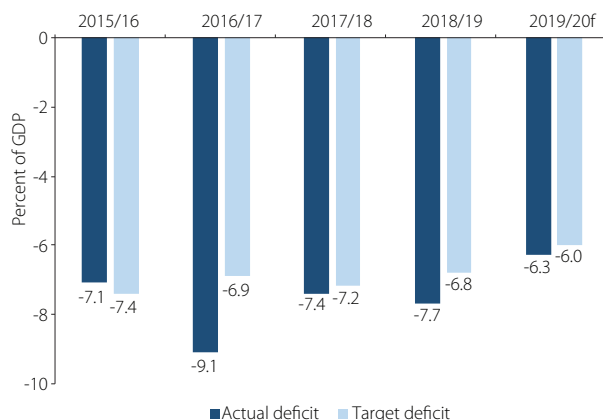
Figure 11: Number of physicians per 1000 people



Source: World Bank

⁹ <https://www.nytimes.com/2020/03/13/opinion/coronavirus-best-response.html>

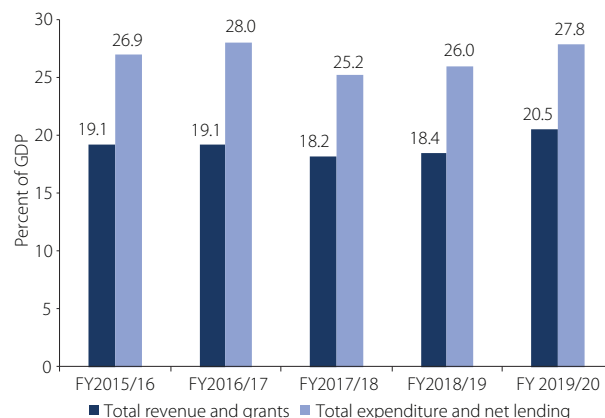
¹⁰ Study of 44,672 confirmed cases in Mainland China by the China Centre for Disease Control & Prevention show that 80% of infections are mild flu and don't need hospitalization. 20% will need hospitalization.

Figure 12: Actual fiscal deficit is wider relative to the target

Source: The National Treasury

1.3 percentage points below target (of 10.4 percent of GDP) (Table 1) due to under-collection in appropriation in aid (AiA), corporate income tax (CIT) and personal income tax (PIT). On the other hand, expenditure pressures had continued in FY2019/20, prompting the NT to adjust upwards its deficit target (Figure 13). The increase reflected the settlement of pending bills (payment arrears) for FY2018/19 but also the frontloading of expenditures related to implementation of the Big 4 agenda. As a result, total expenditure for the six months ending December 2019 was Ksh.1,145 billion (11.7 percent of GDP) compared to a target of Ksh.1,308 billion (12.6 percent of GDP) (Table 1).

1.3.4. The COVID-19 global pandemic is straining further the public finances. Revenue collection is declining due to a decrease in economic activities and new proposed discretionary changes to tax policy. The slowdown in economic activity is indirectly contributing to a significant slowdown in revenue collection, estimated at about Ksh.84 billion (or 0.84% of GDP). Tax revenue from imports, profits, and consumption are all expected to decrease, with some tax bases are likely to contract much faster than the slowdown in nominal GDP. In addition, discretionary changes to tax policy taken to support business and protect vulnerable households are expected to result in large revenue losses. The government has enacted several tax rates cuts, including a reduction in turnover tax rate (from 3% to 1%); a cut in the corporation and individual income tax rate (from 30% to 25%); a cut in the VAT rate (from 16% to 14%), principally to cushion SMEs, firms, and households from the crisis. The estimated revenue loss in FY2019/20 is approximately Ksh.39.2 billion (or 0.38% of GDP).¹¹

Figure 13: Budget deficits are driven by revenue shortfalls and expenditure increases

Source: The National Treasury

1.3.5. Additional expenditures have been allocated towards strengthening the healthcare systems to withstand a potential spike in the COVID-19 infections and to address the associated economic crisis. The GoK has allocated more resources to the health sector to help strengthen the health system (Table 2). This is expected to fund expansion of hospital infrastructure (increase number of intensive care beds, put up temporary isolation facilities in counties, obtain respiratory-support machines, supply of testing kits, preventive kits etc.) as well as hiring of additional medical personnel and payment for extra workload (or over-time) of medical staff. Preliminary expenditures related to strengthening the health systems, social protection, supporting businesses, and security spending to police the national curfew is estimated at above Ksh.39.8 billion (or 0.39% of GDP).

1.3.6. As a result, the fiscal deficit is expected to rise to 8 percent of GDP in 2020 (from a pre-COVID-19 target of 6.3 percent of GDP). This effectively means postponement of the fiscal consolidation effort until after the crisis. This is understandable in the short run, because the additional fiscal stimulus is critical to avoid massive layoffs, bankruptcies and to support vulnerable households. Most tax cuts are expected to be offset by the removal of tax expenditures and exemptions under VAT and income taxes once the crisis abates and recovery in economic activity begins. The fiscal framework is being adjusted through a supplementary budget II under preparation, including a wider fiscal deficit (of 8 percent of GDP in FY2019/20 from the previous target of 6.3 percent of GDP). While expenditure savings are expected to be realized through realignment of capital expenditures and postponement of low-priority projects, a fiscal financing gap is expected due to the COVID-19 fiscal measures. This will be closed by additional net domestic financing.

¹¹ This estimate is obtained by pro-rating annual revenue loss from these tax cuts for the fourth quarter of FY2019/20.

Table 1: H1 of FY2019/20 fiscal out-turn (% of GDP)

	FY2018/19	FY 2019/20	FY18/19 H1	FY19/20 H1	
	Act.	Est.	Act.	Prel.	Target
	in percent of GDP, unless stated otherwise				
Total revenue and grants	18.4	20.5	8.0	9.1	10.4
Total revenue	18.2	20.1	8.0	9.0	10.2
Ordinary revenue	16.1	17.8	7.2	8.3	9.1
Taxes on Intl. Trade & Transactions (Import Duty)	1.2	1.2	0.5	0.5	0.6
Excise Taxes	2.1	2.5	0.9	1.0	1.2
Taxes on Income, Profits & Capital gains (Income Tax)	7.3	7.8	3.3	3.5	3.8
Taxes on goods and services (VAT)	4.4	4.5	1.9	2.0	2.2
Other Revenue	1.1	1.8	0.6	1.2	1.3
Ministerial Appropriation in Aid	2.1	2.3	0.7	0.7	1.1
Grants	0.2	0.4	0.1	0.1	0.2
Total expenditure and net lending	26.0	27.8	10.8	11.6	12.7
Recurrent Expenditure	16.4	17.0	6.3	7.9	7.7
Domestic Interest	2.9	2.8	1.3	1.4	1.4
Foreign Interest due	1.1	1.5	0.5	0.6	0.6
Wages & Salaries	4.5	4.7	2.0	2.2	2.2
Development	5.8	7.9	3.1	2.5	3.4
County Transfer	3.9	3.7	1.2	1.2	1.6
Balance including grants (cash basis)	-7.7	-6.3	-2.8	-2.5	-2.3
Total Financing	7.7	6.3	2.8	2.4	2.3
Net foreign financing	4.4	3.4	1.4	0.8	1.5
Net domestic financing	3.2	2.9	1.3	1.6	0.7
Primary balance	-3.7	-2.0	-1.0	-0.5	-0.2
Memo:					
Nominal GDP estimate (Ksh. billion)	9,990.0	10,355.4			

Source: The National Treasury

Note: The above fiscal framework has been revised to accommodate the COVID-19 fiscal measures to be formalized in the context of supplementary budget II.

The government's fiscal package

1.3.7. While the fiscal response package (Box 3) is timely, it is still important to highlight its design and features with regards to ensuring fiscal sustainability post-crisis.¹² All fiscal stimulus package should be symmetrical, implying tax cuts during a recession should be followed with a reversal (or tax increase) once the economy recovers. In addition, such a package should embrace specific attributes in its design. These include the efficiency of a particular instrument to achieve targeted objectives; cost and fiscal sustainability; flexibility to adjust to changing circumstances, and administrative feasibility (Box 4). This section examines the recent tax cuts along these features.

- The government has introduced tax cuts for the turnover and corporation tax rate (CIT) that should support MSMEs, large and formal firms, respectively.

By reducing CIT to 25%, Kenya would align its rate towards the global average, which should be supportive of investment (e.g. attracting FDI) (Figure 14). Nonetheless, it is important for the authorities to be aware that reversing the lowered tax rates may be difficult, especially if recovery after the crisis is slow, which would drive up the fiscal cost. Thus, the reduction in the turnover tax should ideally contain a sunset clause to revert to 3 percent after a specific period of time (e.g. 2-3 years). This is critical considering that the government faces a large, long-term fiscal deficit, and irreversible tax cuts would make this problem considerably worse post-crisis.¹³

- The reduction in VAT rate is expected to boost final consumption, which could benefit business sales and enhance households' purchasing power. However, at 14% the VAT rate would be lower than regional comparators (the Africa average, Figure 15) and

¹² Girouard, N. and C. Andre (2005).

¹³ A. Auerbach and W. Gale (1999) <https://www.brookings.edu/research/the-case-against-tax-cuts/>

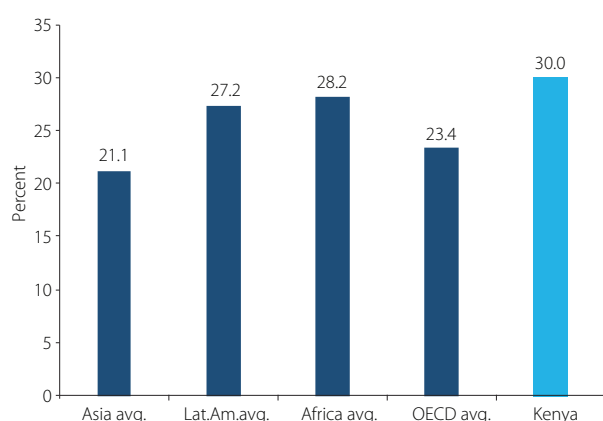
Table 2: Budgetary implications of COVID-19, FY2019/20

	KSH. Billion	Percent of GDP
A. Expenditure measures (one-off costs)		
Health	6.8	0.1
Social protection	10.0	0.1
VAT refunds clearance	10.0	0.1
Pending bills clearance	13.8	0.1
Other, including water and sanitation	2.0	0.0
Total	39.8	0.4
B. Revenue measures		
CIT tax rate cut	13.7	0.1
PIT tax rate cut and threshold change	11.7	0.1
VAT rate cut	13.8	0.1
Turnover rate cut	0.1	0.0
Total	39.2	0.4
C. Revenue underperformance due to COVID-19	84.1	0.8
Total impact of COVID-19	163.1	1.6
Memo		
Nominal GDP estimates (Ksh. Billion)	10,315	

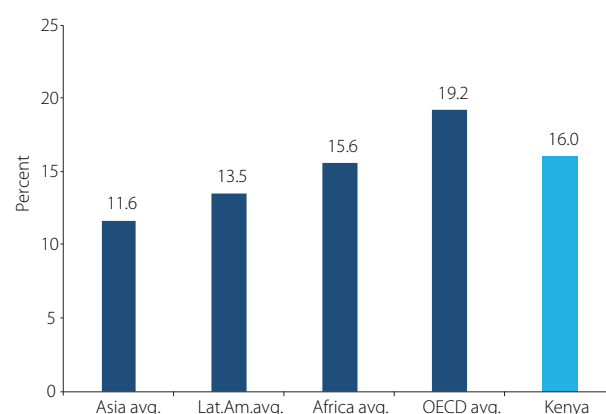
Source: IMF estimates

could go against greater regional market integration. Furthermore, similar measures taken in other countries to respond to the COVID-19 crisis entailed a temporary reduction of the VAT rate, but were also often targeted at promoting consumption in sectors hit hard by the crisis such as aviation, accommodation, and tourism (e.g. China, Cyprus, Korea, and Norway). Theoretically, a permanent reduction would have no effect (due to Ricardian equivalence) as consumers would anticipate large future taxes and consider instead to save rather than spend their windfall from a rate cut. In any case, this reduction should also potentially have a sunset clause and perhaps be better targeted.

- The GoK has also initiated significant changes to individual income taxes (PIT), reducing the top rate from 30% to 25%. In addition, those earning less than Ksh.24,000 per month have been exempted from income tax. These measures seek to boost disposable incomes, but overall, they disproportionately benefit households which are best placed to weather the current shock. The exemption of those earning less than Ksh.24,000 per month from income tax does reduce the average tax rate for individuals in lower tax brackets, but the reduction of the top tax bracket on individual incomes benefits the average tax rate for those with incomes above Ksh.480,648 (Figure 16). Thus, in terms of

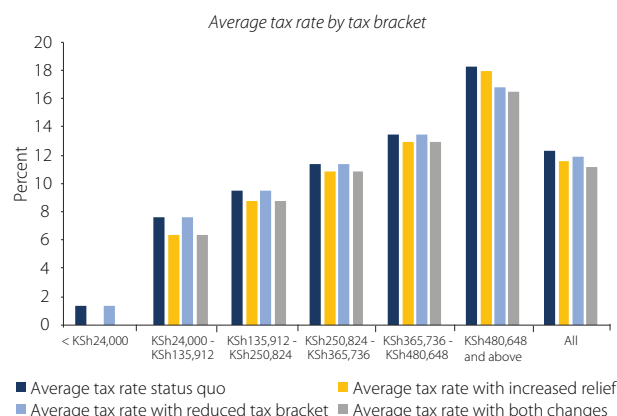
Figure 14: Average corporate tax rates (before Kenya's announced change)

Source: KPMG

Figure 15: Average indirect tax rates (before Kenya's announced change)

Source: KPMG

Figure 16: Average tax rate by tax bracket

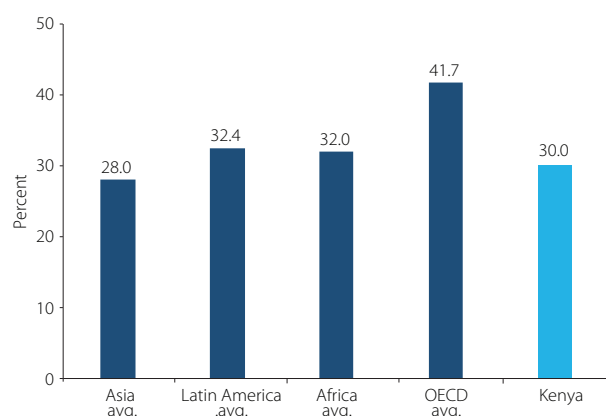


Source: World Bank

the share of total expenditure spent on PIT, the benefits of this policy changes are captured predominantly by the top income quintile (Figure 17).

- Kenya's personal income tax rate for top-rate payers would drop below the regional averages (Figure 18), suggesting that the measures would make Kenya's tax system considerably less progressive than the regional and global norms. Thus, reducing personal income tax revenues risks being regressive in terms of its overall fiscal incidence. In addition to negatively affecting equity within the pool of income tax-paying households, reducing income tax revenue overall also means less revenue for pro-poor spending, including to support the very poorest households with incomes too low to pay for essential public services, such as universal health coverage and free primary education.

Figure 18: Average top personal income taxes in Kenya (before tax changes)

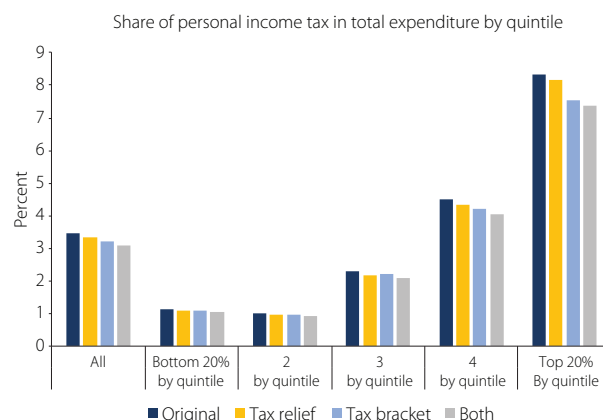


Source: KPMG

1.4. Kenya's public debt stock is rising

1.4.1. The widening of the fiscal deficit to accommodate the COVID-19 pandemic intervention measures is expected to increase Kenya's public debt

Figure 17: Share of PIT in total expenditure by quintile



Source: World Bank

stock. In FY2019/20, the primary balance is expected to stay at 3.7 percent of GDP, compared to a pre-COVID-19 target of 2.1 percent (representing an additional debt creating flow of 1.6 % of GDP). Gross public debt has increased from Ksh.5.0 trillion (53.8 percent of GDP) in 2015/16 to about Ksh.6.4 trillion (or 63.1 percent of GDP)¹⁴ in 2019/20 (Figure 19). The increase in debt stock was driven by a wider primary balance deficit (contributing about 0.3 percentage points), interest payments (3.8 percentage points), and other residual factors (1.8 percentage points). In the past, relatively strong nominal GDP growth and a stable local currency (against the US dollar) have contributed to a reduction in debt expansion (Figure 20). In 2020, however, both growth and the exchange rate are expected to come under pressure due to the impact of COVID-19.

1.4.2. The stock of Public and Publicly Guaranteed (PPG) external debt stood at US\$ 30.7 billion (29.8 percent of GDP) in December 2019, up from US\$ 26.7 billion (26.5 percent of GDP) in December 2018. Commercial loans (including suppliers' credit, commercial banks and Eurobonds) amounted to US\$10.5 billion (or 35 percent) of total external debt by end-2019 (Table 3). In addition, the bullet repayment nature of previous sovereign bonds raises particular debt management challenges by generating spikes in refinancing risk. Approximately 33.4 percent of the external debt is owed to multilateral creditors, among which IDA is the largest creditor (Table 3). The bilateral component accounts for about 33 percent of external debt, out of which non-Paris Club creditors accounted for about 23.4 percent (Figure 21).

1.4.3. Kenya's external debt vulnerabilities have risen because its debt service obligations are increasing while export receipts and government revenues are

¹⁴ Kenya's debt carrying capacity, which is a composite index capturing factors such as average institutional indicator (or CPIA), real GDP growth, remittances, international reserves and world growth is strong (3.12 vs a threshold of 3.02). Based on this, the PV of total public debt in percent of GDP terms is about 70 percent.

Box 3: Features to be considered in the design of fiscal response package

Efficiency - The efficiency of a particular fiscal instrument to achieve given objectives in a cost-effective way will be influenced by:

- Targetability – the extent to which the instrument allows to directly target specific groups or activities.
- Speed – the time elapsed between the adoption of the instrument and the desired impact.
- Abuse resistance – the ease to which amounts, and eligible beneficiaries can be controlled.

Cost and fiscal sustainability - Containing the cost of fiscal measures involves consideration of costs and benefits of specific instruments and their interactions. For example, measures that aim at reducing layoffs may generate benefits in terms of reduced unemployment and social security payments.

- Affordability – the extent to which the use of the instrument impacts on fiscal stability. In particular, instruments that provide support in the form of credits or through the deferral of payments will have lower cost implications than instruments in the form of outright grants and expenditure.
- Predictability and control of cost – can upper limits for the cost of a program be established and can the actual cost be reasonably well predicted?

Flexibility - The high uncertainty regarding the duration of the pandemic and the intensity with which Kenya will be affected, puts a premium on the flexibility with which an instrument can be deployed, including the ability to scale up the instrument or to stop its use as needed.

- Scalability – the extent to which the instrument can be scaled in accordance with needs.
- Reversibility – the ease with which the response can be withdrawn, without causing economic and behavioral distortions.

Feasibility - Administrative ease – the extent to which the instrument can be implemented without significantly increasing the administrative burden, and resilience to health measures, such as social distancing and other pandemic impacts – the COVID-19 pandemic has direct impacts on the deployment of fiscal instruments. For example, scaling up of health expenditure may be constrained by a lack of qualified personnel; support measures that involve human contact (especially) in groups will be less desirable than instruments that limit such exposure; and scaling up of investment may face supply side constraints if the pandemic limits contractors' ability to operate.

Source: World Bank staff

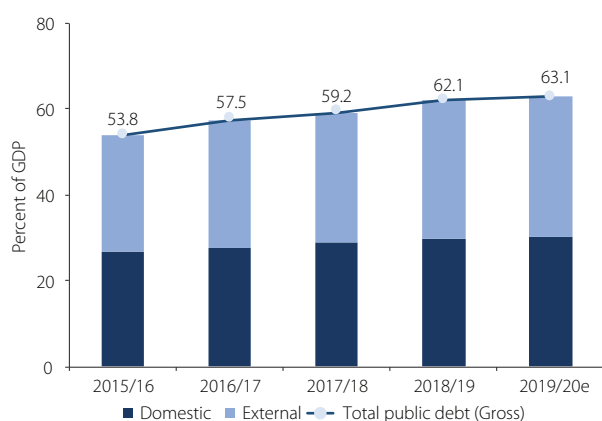
decreasing in part due to the impact of COVID-19.

Interest payments absorb at least 21.5 percent of total revenues in FY2019/20 (up from 15.5 percent in FY2016/17), reducing available revenue to cover primary expenditures (non-interest spending). Kenya's traditional exports (horticulture, tea, and coffee) will be adversely affected in the context of a global recession. As a result, there is significant fiscal pressure associated with debt services obligations. However, against the background of large government financial assets (1.5% of GDP), and

adequate levels of official foreign reserves (US\$8.8 billion by March 2020), Kenya is able to meet its near-term debt repayment obligations.

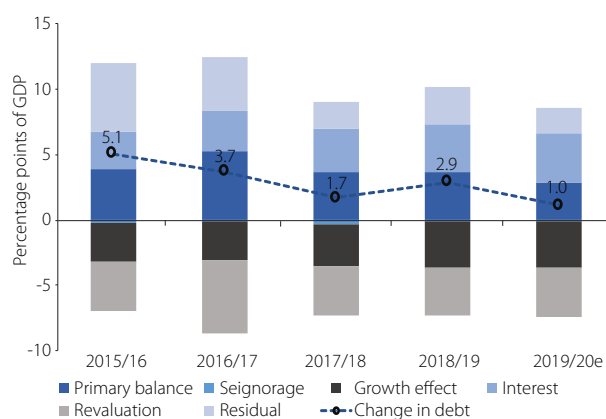
1.4.4. With over half of Kenya's public debt stock being external, exposure to foreign currency risk remains high. The main exposure is to the U.S. dollar at 71.3 percent, followed by the Euro at 15.4 percent, with the Chinese Yuan and Japanese Yen (JPY) at 6.1 percent and 4.3 percent, respectively (Figure 22). The global financial

Figure 19: The public debt stock has increased



Source: The National Treasury and Central Bank of Kenya

Figure 20: Public debt expansion is driven by wider primary balance



Source: The National Treasury and Central Bank of Kenya

Table 3: Structure of PPG external debt

	Dec-17		Dec-18		Dec-2019*	
	US\$ Millions	Share	US\$ Millions	Share	US\$ Millions	Share
Multilateral	8,154.90	35.8	8,588.30	32.1	10,238.50	33.4
o/w IDA	5,181.40	22.8	5,481.60	20.5	7,234.40	23.6
Bilateral	7,580.90	33.3	8,778.40	32.8	10,103.20	33
Paris Club	1,954.90	8.6	2,271.30	8.5	271.5	0.9
Non-Paris Club	5,626.00	24.7	6,507.10	24.3	7,165.90	23.4
Commercial	7,021.60	30.9	9,377.00	35.1	10,316.80	33.7
o/w Eurobond	2,750.00	12.1	4,750.00	17.8	6,100.00	19.9
Total	22,757.40	100	26,743.60	100	30,658.50	100

Source: National Treasury and World Bank Estimates. Nominal GDP estimate for FY19/20 US\$100.5 billion
 Notes: * Provisional-data as at December 2019. 1/Includes commercial banks (Eurobond) and Export Credit

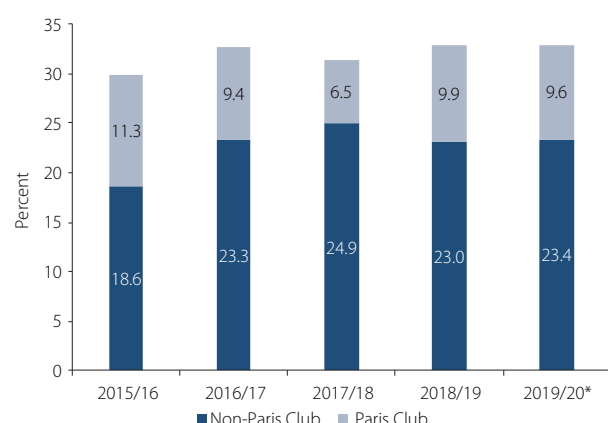
markets are effectively closed and financial flows to emerging markets and developing countries, such as Kenya are likely to be scarce as the COVID-19 situation unfolds. While the government is working towards reducing its exposure to the US dollar through contracting new debt in other currencies, and by matching external liabilities with the currency composition of Kenya's forex inflows and international reserves, there remains significant exposure to the Ksh/US\$ exchange rate. A depreciation of the local currency to the US dollar could significantly exacerbate debt service obligations.

1.5. Headline inflation remains low but could spike due to food supply chain disruptions

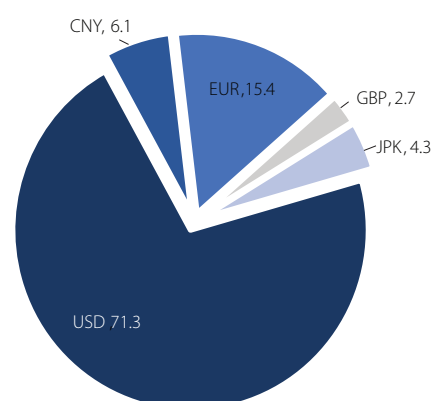
1.5.1. Official statistics show that inflation picked up but stayed within the target range of 5 ± 2.5 percent. In March 2020, inflationary pressures picked up to 6.1 percent (from 4.4 percent in March 2019) (Figure 23) as a result of increased prices for foods in the CPI

basket (vegetables, tomatoes and onions) (Figure 24). Food inflation increased to 10.6 percent in March 2020 from 2.8 percent in March 2019. The country rebased the year it uses to calculate inflation to February 2019 from February 2009, in order to better reflect changing consumer trends. Nonetheless, core inflation that excludes food and energy to capture underlying inflation trends,¹⁵ decreased to [2.9] percent in March 2020, from 3.1 percent in March 2019. Low inflation is consistent with an economy where demand pressures are benign, and where the output gap is sharply negative.¹⁶

1.5.2. Food security in Kenya is facing a twin shock from restrictions in place due to the COVID-19 crisis and the earlier locust attack-contributing to a spike in food prices. The increase in prices has been largely due to the disruptions to the food supply chain as a result of the imposition of a curfew (although there are exemptions, the environment is generally less conducive for overnight trucking)¹⁷ and the closure of some wholesale

Figure 21: The composition of Bilateral creditors has changed over time(% of external debt)

Source: World Bank based on National Treasury
 Note: * As of December 2019

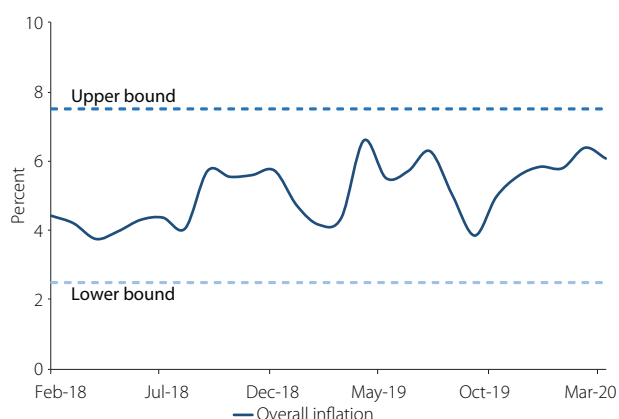
Figure 22: Exposure to the US dollar (end-Dec 2019) is very high (percent of total)

Source: World Bank based on National Treasury

¹⁵ Bryan, M. et al. (1994).

¹⁶ See the spring macroeconomic and fiscal model (MFMod) projections of potential and output gap.

¹⁷ <https://www.the-star.co.ke/news/2020-03-27-excessive-force-by-police-on-first-night-of-covid-19-curfew/>

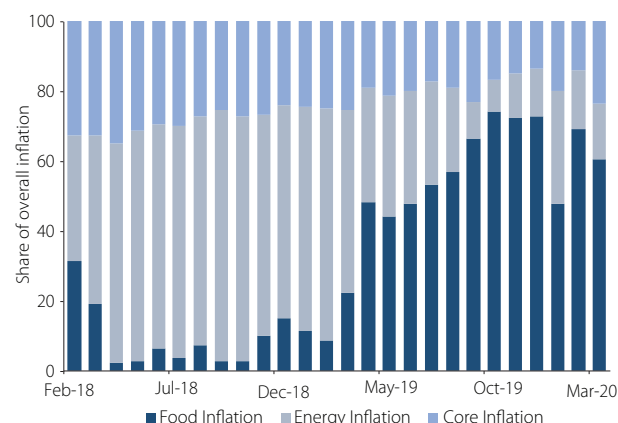
Figure 23: Inflation is contained within the official target

Source: Kenya National Bureau of Statistics and World Bank

markets as a precautionary measure by some county governments. While Kenya's cereal producing counties were spared of the first-round invasion of the locust invasion, there is a high probability that the second-round invasion towards mid-year could impact major food growing areas. The government is implementing a number of measures to mitigate the impact of the corona virus on food security and food prices (Box 4).

1.5.3. The NSE 20 share index (as is the case with major stock indices) reflects investors' assessment of a global economy tipped for a recession due to the COVID-19 pandemic. Major stock markets, globally and the NSE-20, are now in a bear market, consistent with pricing in a global recession (Figure 25). Trends in the NSE 20 index, which captures market expectations of the future earnings growth of the top 20 listed companies, shows tanking stock prices in line with developments in major global indices. Additionally, dollar financing costs for Kenya and other emerging markets are rising dramatically (Figure 26). This is consistent with large selloff by foreign investors due to uncertainty with COVID-19.¹⁸ Thus, the general economic outlook (as perceived by stock market investors) has weakened somewhat, and a global sudden stop in financing has resulted due to COVID-19 related fears by investors.

1.5.4. In response to the adverse impact of COVID-19 on Kenya's economy, the monetary policy committee (MPC) has lowered its policy rate and reduced the cash reserve ratio to support economic activity. After the repeal of interest caps in October 2019, the monetary

Figure 24: Food prices have increased

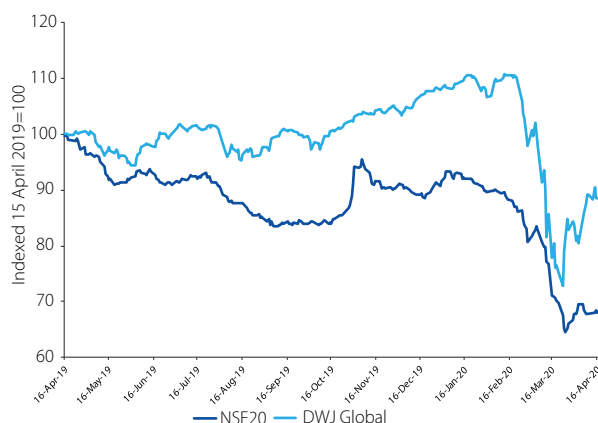
Source: Kenya National Bureau of Statistics and World Bank

policy committee has reduced the Central Bank Rate (CBR) for three consecutive meetings. In November, the CBR was reduced by 50 basis points to 8.5 percent (from 9 percent), followed by a further cut by 25 basis points to 8.25 percent in January 2020. Again, in March 2020, the CBR was reduced by 100 basis points to 7.25 percent. In addition, the cash reserve ratio was reduced from 5.25 percent to 4.25 percent to provide extra liquidity of about Ksh.35 billion to commercial banks. These measures are expected to prompt commercial banks to lower interest rates for borrowers, while also supporting borrowers that could be distressed from the COVID-19 shock.

1.5.5. A more subdued aggregate demand and rising uncertainty is likely to derail faster growth in private sector credit. The year-on-year private sector credit growth increased modestly to 7.7 percent in February 2020 (from 3.4 percent in February 2019) (Figure 27). Credit to the private sector is still weak and with likely increases in non-performing loans, commercial banks are expected to be more cautious while the crisis persists. MSMEs could encounter greater challenges to access financing with reduced demand due to the COVID-19 containment measures. The average interbank rate has picked-up in March 2020 to 4.6 percent, from about 4.2 percent in February 2020 reflecting narrowing liquidity among banks and rising uncertainty (Figure 28). Nonetheless, since the lifting of interest rate caps in November 2019, the interbank rate has decreased by some 250 basis points from 6.9 percent in October 2019 to 4.6 percent in March 2020, suggesting that liquidity flow across top and bottom tier banks has improved.

¹⁸ <https://www.iif.com/Publications/>

Figure 25: Stocks Pricing in Global Recession
(DWJ Global and Nairobi-20, indexed: 27 Feb 2019 = 100)



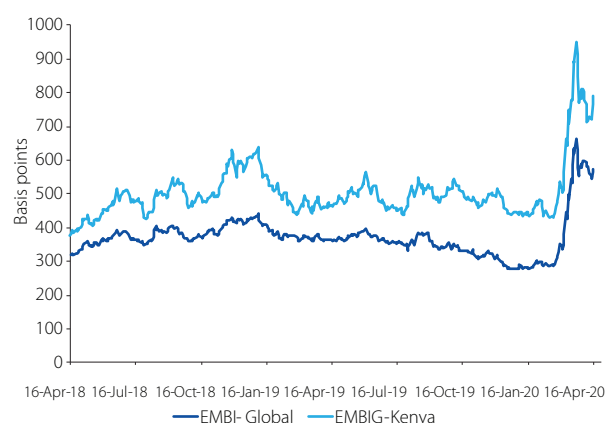
Source: Haver

1.5.6. While the banking system remains stable, profitable and well capitalized, uncertainty and risks of increased default due to the impact of COVID-19, could increase financial sector stresses. This is especially the case in Kenya's banking system where the level of non-performing loans (NPLs), remains high (estimated at 12.7 percent in February 2020).¹⁹ With falling demand, firms are likely to face cashflow challenges, including meeting their debt service obligations. The CBK anticipates a potential spike in loan defaults and has granted flexibility to banks on provisioning requirements for loans restructured due to the pandemic and extending flexibility to borrowers on loan terms based on individual circumstances arising from the crisis (Box 1).

1.6. Kenya's external account balance is coming under pressure with expanding financing needs

1.6.1. The impact of COVID-19 on the external account would be enormous through weak tourism receipts, low exports and remittances receipts, as well as more pressure on the exchange rate. The current

Figure 26: External financing costs rising
(EMBIG index of sovereign bonds, spread over US treasuries)

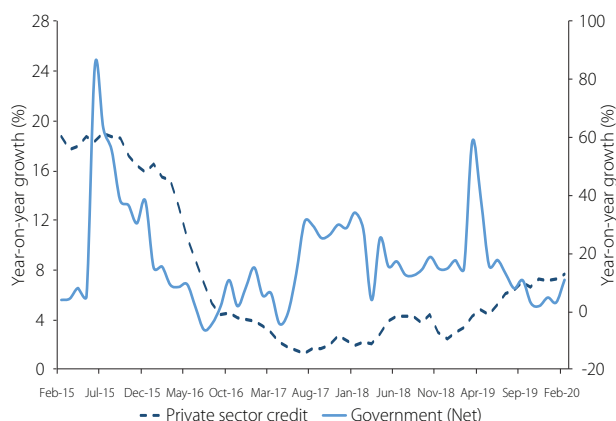


Source: JP Morgan

account deficit is expected to narrow from 4.6 percent of GDP in 2019 to 4.5 percent in 2020 (Figure 29), as decline in imports of goods and services more than outweighs a sharp contraction in exports of goods and services. Imports are expected to decrease from 20.4 percent of GDP in 2019 to about 18.8 percent of GDP in 2020, mainly due to a lower oil import bill and reduced import of capital and transportation equipment. Exports are also expected to slow down from about 11.6 percent of GDP in 2019 to about 10.5 percent of GDP in 2021, owing in part to weak external demand, but also significant contraction in manufacturing exports. Tourism and remittance inflows are expected to contract significantly due to COVID-19. Reflecting the US dollar's strong appreciation against most currencies, the nominal exchange of the shilling against the US dollar has depreciated by 4.2 percent between February 28 and April 14 (Figure 30).

1.6.2. Official borrowing and private investment inflows dominate the financing of the current account deficit, but external financing needs have also increased. The shock to emerging market and frontier economies'

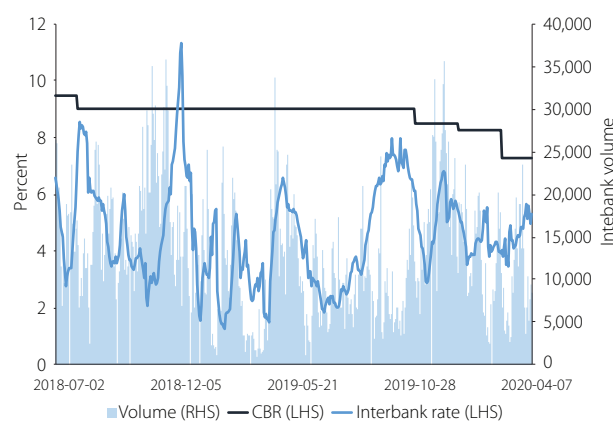
Figure 27: Credit to the private sector remains subdued



Source: Central Bank of Kenya

¹⁹ Compared to a statutory requirement of 5 percent or less.

Figure 28: The cut in the CBR should support credit growth



Source: Central Bank of Kenya

Box 4: Impact of the COVID-19 pandemic and Locust invasion on food security

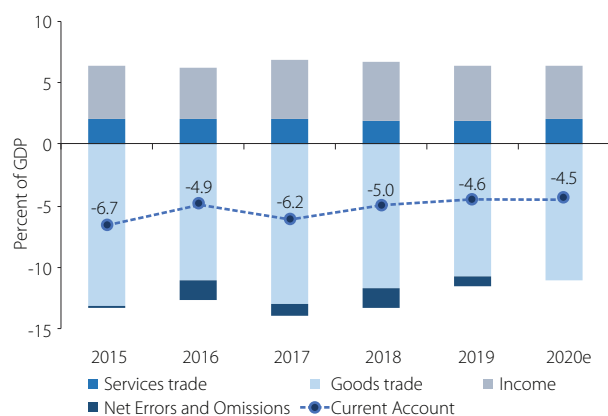
- The government is implementing a number of measures to mitigate the impact of the corona virus on food security. The GoK has constituted a County Government Co-ordination and Food Supply Working Group chaired by the Cabinet Secretary for Agriculture. The working groups' objective are to: (i) monitor the availability of staple foods and take necessary actions to ensure adequate food supply for all Kenyans during the COVID crisis; and to (ii) identify food insecure households, map them to localities and develop strategies to mitigate risks and provide support to households. Key decisions taken thus far include:
 - (a) allowing agriculture markets to remain open to the extent that they comply with social distancing, provision of water and soap for hand washing or sanitizers
 - (b) exempting transportation of all food stuff from the curfew
 - (c) suspension of the payment of cess on food stuff by all counties; and
 - (d) allowing private millers to import up to 4 million tons of maize.
- Further, the Ministry of Agriculture plans to (i) to create a "War Room" to monitor and track the food security situation in the country on a day to day basis in collaboration with county governments; and (ii) identify and build a database of 1 million food insecure households so as to be prepared for roll out of the support programs if needed.
- In response to the locust attack, the Government of Kenya in collaboration with County Governments and other development partners has been undertaking control operations. The Ministry of Agriculture, Livestock and Fisheries has been working closely with the Food and Agricultural Organization of the UN (FAO) to take up aerial and ground control of the locusts in the affected regions. The actual activities carried out include: (a) establish 6 control bases in Wajir, Isiolo, Turkana, Marsabit, Masinga, and Garissa to coordinate control interventions in the affected areas; and (b) deploy spraying and surveillance aircrafts to the affected areas and ground control equipment like vehicle mounted sprayers, motorized and manual knapsack sprayers, hand-held sprayers to spray various control pesticides. They have also been trying to build the capacity of the county support staff and have deployed more than 500 National Youth Service (NYS) personnel for ground spraying.
- The primary strategy has been to target breeding grounds and control hopper bands while they are still at the nymph stage before they can fly. Identification of the breeding grounds continues. At the request of the Government of Kenya, the World Bank triggered an emergency response component (US\$13.8 million) under the ongoing Kenya Climate Smart Agriculture Project to provide resources for early control operations. In addition, a US\$ 45 million credit has been submitted for approval by the WBG Board for locust response. Despite the above efforts, food security of nearly 3 million vulnerable households is at risk. Given current information and forecasts of locust movements, as well as impacts seen during historical upsurges/plagues, future food security impacts will likely be significant for affected households.

Source: World Bank staff

access to international capital markets makes the financing of the current account deficit considerably more challenging. The capital and financial account are estimated at US\$3.4 billion (or 3.2 percent of GDP) in 2020. This represents FDI equivalent to 0.6 percent of GDP, portfolio investment (of 0.4% of GDP), and other investments of 2.5 percent of GDP (Figure 31). With a current account deficit of 4.5 percent of GDP, this represents an external financing gap of about 1.3 percent of GDP for 2020.

Some of this gap is expected to be covered through an IMF's Rapid Credit Facility (RCF) equal to 100 percent of the country's quota (or US\$ 750 million), leaving about 0.7 percent of GDP to be covered through other sources. As of February 2020, Kenya's official foreign reserves amounted to US\$8,754 million (or 5.3 months of import cover), up by US\$180 million during the same period last year (Figure 32).



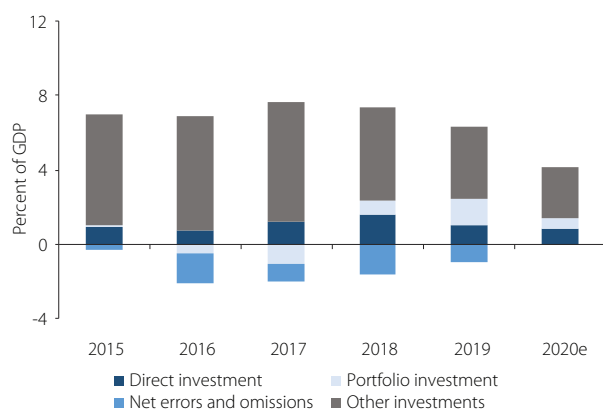
Figure 29: The current account balance has narrowed

Source: Central Bank of Kenya

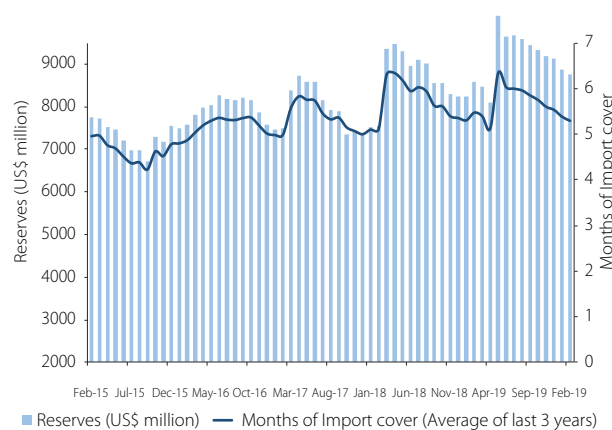
Note: "e" denotes estimate

Figure 30: The nominal exchange rate has depreciated

Source: Central Bank of Kenya

Figure 31: Official borrowing and private investment inflows financed the current account deficit

Source: Central Bank of Kenya

Figure 32: Gross official foreign reserves are adequate

Source: Central Bank of Kenya

2. Outlook and Risks

2.1. Kenya's growth outlook has been dampened by the COVID-19 pandemic

2.1.1. Kenya's medium-term growth prospects are dampened by the COVID-19 pandemic and the attendant global uncertainty. The baseline adjusts for the negative impact of COVID-19 on Kenya's growth outlook. Accordingly, growth is estimated to pick up sharply to 5.2 percent in 2021 and 5.7 percent in 2022, before reaching Kenya's growth potential of 6.0 percent in 2023 (Table 4). The projections are based on the assumptions that the global economy is tipped for a recession with significant negative spillovers on Kenya; but that investor confidence and corporate incomes will be restored soon after the COVID-19 pandemic is contained and that the weather remains normal and favorable for agricultural output. Nonetheless, the COVID-19 situation is evolving very rapidly and could get worse as the partial shutdown to contain the spread of COVID-19 could be prolonged. Post-crisis, economic activity would be supported by recovery in private sector investment and improved access to credit. Further, swift and well targeted policy

responses to COVID-19, including fiscal and monetary policy stimulus, are expected to support resilience.

2.1.2. On the production side, the baseline assumes favorable weather conditions for agriculture performance, agro-processing, and electricity and water supply. Drought years are associated with a reduction in Kenya's GDP growth by at least 0.6 percentage points.²⁰ Agriculture is projected to expand at an average rate of 4.0 percent in the medium term. A strong agricultural harvest is expected to improve food processing (manufacturing) activity, to increase exports and to strengthen household income and consumption growth. On average, industry is expected to grow at a rate of 4.1 percent over the medium term, supported by increased access to credit, government's focus on accelerating implementation of the Special Economic Zone (SEZ) program, and investment policy expected to attract foreign investors. In addition, adequate rainfall is expected in the base case to support a rebound in electricity and water supply, given that hydropower accounts for over a third of total energy generation.

Table 4: Medium term GDP growth projections

	2017	2018	2019*	2020e_b	2020e_d	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	6.3	5.4	1.5	-1.0	5.2	5.7	6.0
Private Consumption	7.4	6.5	5.0	1.5	-1.2	5.0	5.5	6.7
Government Consumption	3.9	5.6	4.9	1.2	1.2	3.5	2.9	5.4
Gross Fixed Capital Investment	6.6	-9.2	8.3	1.3	2.4	10.6	11.1	9.6
Exports, Goods and Services	-6.2	3.9	-0.2	0.1	0.1	1.5	4.8	5.8
Imports, Goods and Services	8.6	2.5	-2.0	1.2	1.2	5.5	7.2	9.2
Real GDP growth, at constant factor prices	4.7	6.4	5.5	1.5	-1.0	5.2	5.7	6.0
Agriculture	1.6	6.0	3.6	2.8	2.8	3.2	4.2	4.5
Industry	3.9	5.5	4.6	1.1	0.0	2.2	4.7	5.3
Services	6.5	7.0	6.7	1.1	-3.0	7.1	6.6	6.4
Inflation (Consumer Price Index)	8.0	4.7	5.2	5.6	5.6	5.9	6.1	6.1
Current Account Balance (% of GDP)	-6.2	-5.0	-4.6	-4.5	-4.7	-4.4	-4.3	-4.3
Net Foreign Direct Investment (% of GDP)	1.3	1.7	1.2	0.9	1.0	1.5	1.5	1.5
Fiscal Balance (% of GDP) (c)	-7.4	-7.7	-8.0	-7.4	-7.6	-6.4	-5.4	-4.4
Debt (% of GDP) (c)	59.2	62.1	63.1	66.0	66.2	66.8	66.5	65.2
Primary Balance (% of GDP) (c)	-3.6	-3.7	-3.7	-3.4	-3.6	-2.2	-1.3	-0.3
Memo:								
Real GDP (Ksh. billion)	8,165.8	8,892.1	9,740.4	9,886.5	9,642.9	10,400.6	13,362.3	15,141.3
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	35.2	34.4	33.4	33.1		32.4	31.6	31.6

Source: World Bank

Notes: * = preliminary e = estimate (_b = baseline; _d = downside scenario); f = forecast

(a) Calculations based on 2005-IHBS and 2015-IHBS. Actual data: 2015. Nowcast: 2016-2018. Forecast are from 2019 to 2021.

(b) Projection using annualized elasticity (2005-2015)

(c) Fiscal years 2017 = FY 2017/18

2.1.3. Some of the services sub-sector is projected to be severely impacted by ongoing measures to restrict mobility, closure of schools and public spaces, and broad social distancing to prevent widespread COVID-19. Specific sectors that could be hit hard by measures taken to contain the spread of COVID-19 and/or external demand shocks include hotels and restaurants (i.e. hospitality); the transportation sector, especially Kenya Airways and other local airlines; the sports and entertainment sector; and SMEs. Some of these could go permanently out of business. As a result, growth in services in 2020 has been marked downward considerably to 1.1 percent before recovering to growth at 6.7 percent over the medium term.

2.1.4. On the demand side, the baseline assumes that private investment will be weak, held back by dwindling investor confidence in the wake of COVID-19. Kenya's private investment has remained weak in the last five years, partly attributable to interest rate caps that constrained access to credit, especially for the SMEs. A one percentage point increase in access to credit is associated with an increase in real GDP growth by about 0.07-0.15 percentage points.²¹ The repeal of interest rate caps should help increase access to credit (and relatedly investment) by SMEs on condition that the government makes progress in its planned fiscal consolidation. Nonetheless, this is considerably difficult given pressing health related expenditure pressures and growing social transfers to vulnerable groups for economic relief to help weather the COVID-19 pandemic.

2.1.5. After pausing on fiscal consolidation in 2020 due to the emergency, the authorities will resume it in 2021. The fiscal deficit is projected to decrease from about 8.0 percent of GDP in FY2019/20 to about 7.4 percent of GDP in FY2020/21 and thereafter decrease by one percentage point every year to 4.4 percent of GDP in FY2023/24 (Table 4). The primary balance is projected to decline from -3.7 percent of GDP in FY2019/20 to -0.3 percent of GDP in FY2023/24, reducing the growth in public debt from a peak of 66.8 percent of GDP in FY2021/22 to about 65.2 percent of GDP in FY2023/24. This fiscal consolidation path is much slower over the medium term relative to the pre-COVID scenario.

2.1.6. Inflationary expectations remain well anchored, giving room for more accommodative

monetary policy to support growth. Inflationary pressures are projected to remain muted in the medium term. Headline inflation is projected at 6.0 percent, which falls within the government target range of 5 ± 2.5 percent. This is supported by a recovery in agricultural output (low food prices) and low oil prices. The very low core inflation is consistent with an economy where demand pressures are benign, and where the output gap remains negative. This provides room for monetary policy easing to support growth in the context of COVID-19, and over the medium term.

2.1.7. The current account deficit is projected to widen over the medium term as the decline in exports of goods and services is expected to be larger relative to the decline in imports. Exports are expected to contract in line with projected economic slowdown in the main trading partners,²² while receipts from tourism are expected to decrease sharply due to travel restrictions (to counter the spread of COVID-19) and weaker growth prospects in advanced economies. The expansion in imports is projected to be marginal, in line with the slowdown in Kenya's real GDP growth and the decrease in oil prices and disruptions to global supply chains due to COVID-19 pandemic. Nonetheless, the external current balance is adequately financed by continued access to international financial markets (both official and non-official debt) and portfolio inflows. The prospects for re-engagement with the IMF (through a Stand-By Arrangement), provides additional balance of payment support over the medium term.

2.2. Risks to outlook

2.2.1. Risks are tilted to the downside. The greatest risk to Kenya's outlook is the extent of the impact of the COVID-19 global pandemic. Kenya is only at the beginning of a very uncertain path as the COVID-19 shock is expected to significantly reduce growth. A more severe or prolonged duration of the global pandemic or its spread in Kenya could further dampen the outlook and exert large strains on the balance sheets of the public sector, firms, and households. Other residual domestic risks include drought and a second-round of locust invasion (in mid-year)-which if it materializes, could reduce agricultural output and rural incomes. A more severe than anticipated global recession or a prolonged deterioration in financial conditions (e.g.

²¹ Alper, C. et al. (2019).

²² Top five export destinations for Kenya in 2018: Uganda, Pakistan, USA, United Kingdom, and the Netherlands.

due to COVID-19) could pose additional downside risks, including a dry-up in external financing.

2.2.2. A larger and unanticipated shock by the COVID-19 pandemic could reduce growth into a recession. The baseline accounts for ongoing social distancing measures taken to date to slow down the rate of infection (self-isolation, travel restrictions, the closure of schools and entertainment spots, and the suspension of public gatherings and conferences). Nonetheless the magnitude of direct and indirect effects on production across the economy, especially if Kenya moves into a full shutdown, could result in a much more significant contraction in growth relative to the baseline. This risk could be mitigated by GoK's adoption of policies customized to the structural features of its economy (a large informal sector, high unemployment, and self-employment) and limited fiscal space. These factors make full lockdown measures very costly for Kenya.

2.2.3. A repeated fiscal slippage could derail efforts to contain public debt and further crowd out private sector-led growth. The baseline assumes that post-COVID-19, the government will follow through with its planned fiscal consolidation targets. However, fiscal slippages present a significant risk to the outlook because continued government borrowing is likely

to outcompete the private sector in access to credit, adversely impacting private sector investment. Further, a significant COVID-19 outbreak, could require spending on health care and economic stimulus, representing a significant risk to fiscal consolidation.

2.2.4. Weather related shocks constitute a significant risk to Kenya's growth over the medium term. The baseline assumes adequate rainfall, but on average Kenya gets one drought in every three years. Furthermore, real GDP growth in years with poor rains is about 0.6 percentage points lower than in years with normal rain.²³ Inadequate rains could dampen projected growth over the medium term as Kenya's agriculture is overwhelmingly rain-fed. Poor harvests could lead to high food prices; increased food imports could widen the current account deficit and weigh on macro stability. Furthermore, since January 2020, Kenya has received an influx of desert locusts to its semi-arid counties.²⁴ While the initial invasion did not spread to Kenya's grain basket counties, a second round of outbreak could dampen crop production. The ongoing national measures to combat the locusts' spread are expected to mitigate this risk. Similarly, increased investment towards small-scale irrigation under the Big 4 is expected to mitigate weather related shocks.²⁵

²³ World Bank (2016). KEU 14.

²⁴ FAO (2020). <http://www.fao.org/ag/locusts/en/info/info/index.html>

²⁵ The DPO contains measures to strengthen water resources management for irrigation in the context of devolution.



Photo: © | World Bank

*Reduced mobility of
persons following
containment
measures to prevent
the spread of
COVID-19*



3. Policy Options during the COVID-19 Pandemic

3.1. Strengthening the healthcare system and improving testing capacity

3.1.1. COVID-19 health policies (self-quarantine, school closures, wearing masks, increasing cleanliness, social distancing, and a nighttime curfew) have one key objective: decrease the replication rate of the disease. Given the existing limited capacity of Kenya's health care systems, these containment policies are key to buy authorities time to ramp-up investment in hospital infrastructure (increase number of intensive care beds, put up temporary isolation facilities in counties, obtain respiratory-support machines, procure medical testing

kits, preventive kits among others). The government has already embarked on these aspects. In addition, ramping up testing and isolation, collecting the right data (through testing) and conducting extensive statistical analysis can help save many lives. Wearing of masks in public places, ensuring hand hygiene, and keeping social distancing are less costly from an economic point of view. This is the time for all Kenyans to join the fight against COVID-19 by following government provided guidelines. In this edition of KEU, a brief summary of health policies that could be adopted at reduced costs and low operational complexity is provided.

Recommendation	Comments/Explanation
Enhance active case finding, contact tracing and monitoring; quarantine of contacts and isolation of cases	- Align the testing algorithm with that of the case definition. Test a representative sample to gather reliable and unbiased information about the prevalence of COVID-19. - Undertake testing for all known contacts, self-isolate and quarantine as soon as possible. As a benchmark, China had up to 1,800 teams of five people each tracking every infected person, everyone they got interacted with, then everybody those people interacted with and isolating the bunch.⁽¹⁾ - Encourage voluntary testing even for those persons who may be ineligible (asymptomatic cases) for testing using the case definition with access provided through private providers at a fee. - Encourage self-isolation and quarantine except for those who voluntarily prefer a government facility e.g. in cases with crowded households. This could be matched with passive monitoring of self-isolation and quarantine using existing technology such as a mobile phone apps e.g. which could provide a daily report.⁽²⁾ The use of these technologies may need the implementation of provisions of the Data Protection Act. ⁽¹⁾ https://medium.com/@tomaspuero/coronavirus-act-today-or-people-will-die-f4d3d9cd99ca ⁽²⁾ https://www.tracetogether.gov.sg/
Hand hygiene, respiratory etiquette, wearing of masks, practice social distancing	- Enhanced hand hygiene particularly in informal settlements. This may include re-examination of water rationing schedules, utilization of alternative water delivery systems (e.g. water tankers), and resourcing of water companies and boards to expand access to households. - It is now mandatory to wear masks in public places. Provision of masks to all has been accredited in reducing infections in China, Taiwan, Japan and other countries. It will also be helpful to provide guidance on appropriate use of masks (through mass media).
Prepare for surge in health care facility needs, including respiratory support and personal protective equipment (PPE)	- Provide health workers with conducive work environment including through provision of PPE, resting rooms, isolation facilities for those that elect to use them. Additional incentives should be provided including enhanced health insurance and life insurance. - Management of health workers in the designated COVID-19 health facilities should be coordinated centrally to enhance efficiency e.g. through pooling and distribution of limited numbers of specialized cadres. - Leverage on the procurement expertise and capacity of the World Bank and UN agencies. Consider pooling procurement from counties, national, and potentially at regional level to this end. - Improve the distribution and accountability for use of PPE and other equipment at facility level. This also necessitates the prioritization of facilities or counties for receipt of these supplies. - Improve rational use of PPE through changes in the case management guidelines that reflect guidance from WHO, CDC and other agencies e.g. when to use N95/FFP2/FFP3 masks or coveralls. - Activate local capacity for the manufacture of essential PPE such as surgical/medical masks, disposable gowns. - Urgently re-examine scenarios for oxygen requirements and initiate mitigation measures.

3.2. Protecting the poorest and the most vulnerable

3.2.1. Increasing support to poor and the most vulnerable households is another crucial policy action.

The hardship from the crisis would disproportionately befall the poorest and most vulnerable groups in Kenya. They do not have resources to cope with the lockdowns and quarantines needed to contain the spread of the pandemic. Many depend on farming (for rural), self-employment and informal wage (for the urban). They have limited coverage of pensions and unemployment insurance schemes, which makes most restrictive containment measures less effective. Protecting earnings and reaching them through transfers is also considerably more challenging due to lack of a proper physical address system and lack of updated household welfare registers. Kenya is at an advantage position, however, because it has social protection and social assistance programs that can be easily scaled up and coverage extended. This program could be supplemented by mobile payment channels.

3.2.2. Mobile penetration continues to rise in Kenya—providing access to digital communications, internet, and mobile payments (including MPESA, Airtel and Orange money). As of March 2019, the number of active

mobile subscriptions in the country was 47.0 million, while mobile penetration was at 90 percent. The near universal adoption of mobile phones reflects multiple SIM ownership by individual consumers. An estimated 46 percent of citizens had access to broadband connectivity at the end of 2018,²⁶ with mobile broadband being the predominant means of internet access. By providing a convenient platform for sending and receiving money and short-term credit, mobile money has become a key mechanism for poverty reduction in Kenya.²⁷ With social distancing, mobile money provides a means to disincentives use of cash. The value of mobile money transfers has increased by 9.5 percent from Ksh.3,638 billion in 2017 to Ksh.3,984 billion or 44.7 percent of annual GDP in 2018.²⁸ Furthermore, mobile money wallets are used as transactional accounts rather than simply providing a means of receiving cash. Thus, mobile payment platforms have sufficient coverage, provide the ability to establish one's identity (by working closely with telecom companies) and potential beneficiaries already have an account. The combination of available cash transfer schemes (for scale up) and sufficient coverage of mobile payments should be maximized in protecting the poor and the most vulnerable households. The following programs have potential for scale-up and could help in protecting livelihoods.

Recommendation	Comments/Explanation
Expand National Safety Net Program (NSNP) to cover more vulnerable households	- NSNP scale-up mechanism can be used to support more poor households in the four counties where poverty rate is historically high. Data of additional 272,000 households is available for such a scale-up. - Given the vulnerability of the elderly and gaps in NSNP's coverage of this group, more people aged 70 y.o. may be enrolled using civil registry data. Further, the eligibility age may be reduced to 65 y.o. to better capture age cohorts at risk of COVID-19. - Data from other government institutions about the poor and vulnerable populations may be used to complement the NSNP Single Registry and provide cash transfers to additional individuals / households. For instance, the Ministry of Education maintains a list of about 15,000 of poor and vulnerable students who mainly rely on the school meals to survive.
In the absence of reliable social registry data, alternative targeting approaches such as use of data from mobile money service providers (telecoms) and household survey data could better identify and target households most affected by the crisis; and deliver cash transfers through mobile money	- Rapid phone surveys could be run to identify the people who are at risk of slipping into poverty (or already impoverished) because of COVID-19 emergency. The survey results could be plugged in the telecoms data to see if the latter can help predict vulnerability and subsequently distinguish the eligible and non-eligible. - The GoK could also apply geographical targeting using small area poverty estimates combined with the telecoms data for locating and validating the beneficiaries. After the targeting is complete, mobile money services may be used to deliver the cash transfers.

²⁶ Kenya Communications Authority.

²⁷ Burgess and Pande, (2005).

²⁸ Suri, Tavneet, and William Jack (2016).

3.3. Supporting firms, protecting workers and jobs

3.3.1. COVID-19 is damaging otherwise healthy firms through four channels: falling demand and revenues, reduced input supply, tightening of credit conditions, and increased uncertainty.²⁹ Protecting jobs and firms to cope with the pandemic is extremely important. Advanced countries have put forward enormous stimulus packages to support firms and protect jobs, including employment guarantees, wage subsidies,

working capital financing, balance sheet and debt service relief. However, implementing similar solutions in developing countries like Kenya, with limited fiscal space and a high degree of informality such as Kenya may be considerably challenging. Taking into account measures the government has already implemented including tax cuts (CIT, and turnover rates), expediting VAT refunds and payment of pending bills, this section addresses a few other measures that could be essential in supporting firms and protecting workers to cope with the crisis.

Recommendation	Comments/Explanation
Targeted liquidity interventions to most vulnerable firms and businesses in order to forestall job losses	• Liquidity support to MSMEs and the broader private sector through banks and other FIs to implement measures such as moratoriums for personal and business loans. • Provision of lines of credit to basic MFIs and SACCOs to support MSME's. • Targeted liquidity support to firms in sectors with strong links to the informal sector and MSMEs and firms in the as health, agriculture, tourism, transport, and food industry. Support should aim to protect employment/livelihoods. • Consider providing temporary support to some large and strategic companies on the basis that they provide significant amounts of jobs and/or their purchases are a lifeline for many SMEs.
Measures to support operations of firms	• Increase of financial literacy awareness to move business transactions to digital platforms. • Targeted support to enterprises to re-adjust their business models, look for new markets and reorganize their supply chains if needed, improve efficiency.
Measures to support financial sector lending to MSME's	• Enhancement of de-risking instruments such as payment/credit guarantees for enterprises, especially MSMEs. • Liquidity support to reduce payment risks and supply risks (including trade finance facility) to MSME's and large-scale businesses through commercial banks.

²⁹ <https://worldbankgroup.sharepoint.com/sites/gge/Documents/COVID-19%20Response%20Documents/COVID-19%20and%20firms%20final.pdf>

3.4. Monetary and fiscal policies

3.4.1. Monetary policy easing and exercising regulatory forbearance might be necessary as long as conditions remain difficult. The core inflation rate is low, and the output gap will be turning sharply negative. There is room for monetary stimulus to support economic activity, and the CBK has begun to implement this, starting with the decision of the MPC to lower the CBK rate to 7.25 percent on March 23. While the crisis is likely to lead to another round of increased non-performing loans, lower interest rates will stimulate activity generally, helping ease the burden on businesses whose activities have been disrupted. It may also be appropriate to provide more liquidity support to banks that are likely to be affected by deterioration of credit quality or facing funding pressure while at the same time facing urgent demand for short-term credit from SMEs and other firms. The CBK could also support efforts enabling banks to provide temporary relief to ease borrowers financing constraints (in 2020), helping support activity and avoid a sharp increase in NPLs.

3.4.2. A fiscal stimulus package is very crucial in mitigating the impact of the pandemic on households and firms. Nonetheless, its effectiveness relies on important design features such as efficiency in targeting beneficiaries, affordability of the package, flexibility and feasibility of the same (Box 3). To date, the government has proposed several tax rate cuts and received parliament's approval. The tax cuts include a reduction in turnover tax rate (from 3% to 1%); a cut in the corporation and individual income tax rate (from 30% to 25%); a cut in the VAT rate (from 16% to 14%), principally to cushion SMEs, firms, and households from the crisis. The estimated revenue loss in FY2019/20 is approximately Ksh.39.2 billion (or 0.38% of GDP). The slowdown in economic activity due to the COVID-19 shock is contributing to a slowdown in revenue collection, estimated at about Ksh.84 billion (or 0.8% of GDP). Tax revenue from imports, profits, and consumption are all expected to decrease, with some tax bases likely to contract much faster than the slowdown in nominal GDP. Against this background, this KEU proposes a strategy to revisit approved tax cuts to restore revenue raising capacity once the crisis clears.

Recommendation	Comments/Explanation
Make lowering of CIT and turnover tax for businesses temporary to enable SMEs and firms have more financial resources to recover from the crisis	- Reduce CIT or turnover tax rates, temporarily over a specified period, say 2-3 years. Having a sunset clause on these cuts will help restore revenue raising capacity in the event the recovery is slow. - Incentivize landlords to reduce rents for small businesses by providing tax credits up to 50% of the rent reduction.
Measures to shore up demand by boosting disposable incomes, including a cut in the VAT rate	- Temporary lowering the VAT rate can shore up demand by boosting household disposable income. However, this should have a sunset clause to revert once activity returns to pre-crisis level. - Alternatively ensure that temporary reduction in VAT rates could be limited to the worst affected sectors such as travel, tourism, accommodation, and public events. - Finally, with the lower VAT rate, and the importance of achieving revenue neutrality, it would be important to be explicit that rationalization of VAT exemptions is part of the package. Nonetheless, additional revenue from the removal of these exemptions will only be realized in the medium term.
Leverage part of the global fuel price windfall to boost government revenue after the crisis	- Global oil prices have fallen by about 60 percent from their year-ago level and will most likely be lower post-crisis period. Kenya stands to benefit from lower global oil prices. Adjusting retail fuel taxes will direct some of the remaining windfall gains to Kenya of lower global energy prices to government revenues. Retail fuel prices would still fall, and Kenyan consumers would still benefit directly, just not by as much as if government allowed full pass-through of the global oil price crash. - Government revenues and cash balances would receive a welcome boost, thereby facilitating critical expenditure programs. In addition, the intervention would be progressive, because most of the gains from lower fuel prices are captured by higher-income Kenyans.
Review and reprogram the development budget	A comprehensive reprogramming of the development budget would release budgeted funds currently locked in stalled or otherwise low-priority or poor-quality projects. This would reduce budgeted financing needs at a time when the fiscal position will be under increased pressure due to the pandemic. Efforts could then be focused more strategically on high-impact projects, where bottlenecks could be addressed and existing committed funds from development partners unlocked.

Recommendation	Comments/Explanation
Monetary policy easing and liquidity lifeline support to firms	• With core inflation low and a widening negative output gap, the CBK could continue to provide monetary stimulus through lower interest rates. • It could also provide liquidity to banks that are likely to be affected by deterioration of credit quality or facing funding pressure while at the same time facing urgent demand for short-term credit from SMEs and other firms. • The CBK could also support efforts enabling banks to provide temporary relief to ease borrowers financing constraints (in 2020), helping support activity and avoid a sharp increase in NPLs.



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ANNEX TABLES

Table A1: Selected economic indicators

	2016	2017	2018	2019	2020	2021	2022	2023
	Act.	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.
Output and prices	(Annual percentage change, unless otherwise indicated)							
Real GDP	5.9	4.8	6.3	5.4	1.5	5.2	5.7	6.0
Agriculture	4.7	1.6	6.0	3.6	2.8	3.2	4.2	4.5
Industry	5.9	3.9	5.5	4.7	1.1	2.2	4.7	5.3
Services	6.4	6.4	6.6	6.3	1.1	7.1	6.6	6.4
Private consumption	4.8	7.4	6.5	5.0	1.5	5.0	5.5	6.7
Government consumption	5.6	3.9	5.6	4.9	1.2	3.5	2.9	5.4
Gross fixed capital investment	-9.2	6.6	-9.2	8.3	2.4	10.6	11.1	9.6
Exports, goods and services	-2.2	-6.2	3.9	-0.2	0.1	1.5	4.8	5.8
Imports, good and services	-3.4	8.6	2.5	-2.0	1.2	5.5	7.2	9.2
GDP deflator	5.6	10.6	2.8	10.0	5.9	6.2	6.6	6.9
CPI (period average)	6.3	8.0	4.7	5.2	5.6	5.9	6.1	6.2
Money and credit	(Annual percentage change, unless otherwise indicated)							
Broad money (M3)	3.0	7.9	9.8	5.6	9.5	..	..	..
Credit to non-government sector	4.4	3.1	4.8	7.1	7.0	..	..	..
Policy rate (CBR)	10.0	10.0	9.0	8.9	..	..	..	..
NPLs (percent of total loans)	7.8	8.9	10.0	12.0	..	..	..	..
Central government (fiscal year i.e 2016 = 2016/17)	(Percent of GDP, unless otherwise indicated)							
Total revenue & grants	18.6	18.2	18.1	18.1	17.6	17.3	17.1	17.2
Tax revenues	15.9	14.8	15.0	13.7	13.8	13.8	13.8	13.9
Non-tax revenues	2.4	3.1	2.9	4.1	3.4	3.1	3.0	3.0
Grants	0.3	0.3	0.2	0.3	0.4	0.4	0.3	0.3
Expenditure	27.5	25.2	25.7	26.1	24.9	23.8	22.6	21.6
Current	19.2	19.7	19.9	21.1	19.9	18.8	17.4	16.9
Capital	8.3	5.5	5.8	5.0	5.0	5.0	5.2	4.7
Primary balance	-5.6	-3.6	-3.7	-3.7	-3.4	-2.2	-1.3	-0.3
Overall balance including grants	-8.9	-7.4	-7.7	-8.0	-7.4	-6.4	-5.4	-4.4
Financing	8.9	7.4	7.7	8.0	7.4	6.4	5.4	4.4
Net domestic borrowing	4.1	3.3	3.3	5.0	3.0	2.4	2.0	0.6
Foreign financing	4.8	4.1	4.4	3.0	4.4	4.0	3.4	3.8
Public debt stock (fiscal year i.e 2015 = 2016/17)	(Percent of GDP, unless otherwise indicated)							
Public gross nominal debt	57.5	59.2	62.1	63.1	66.0	66.8	66.5	65.2
External debt	29.9	30.1	32.3	32.8	32.4	31.3	30.0	28.8
Domestic debt	27.6	29.1	29.8	30.3	33.6	35.5	36.5	36.4
External sector	(Percent of GDP, unless otherwise indicated)							
Exports (goods and services)	14.3	13.6	13.0	11.6	10.4	10.5	10.9	11.0
Imports (goods and services)	-23.3	-22.8	-22.3	-20.4	-18.9	-18.8	-19.3	-19.5
Current account balance (including grants)	-4.9	-6.2	-5.0	-4.6	-4.5	-4.4	-4.3	-4.3
Gross international reserves (in billions of US\$)	9.60	8.75	9.20	9.35	8.30	7.75	8.40	9.20
In months of next year imports	5.0	5.4	5.7	5.8	4.8	4.0	4.0	4.0
Exchange rate (Kenyan shilling/US\$)	101.5	103.4	101.3	102.0	..	..	..	..
Memo:								
GDP at current market prices (KES billion)	7,023	8,144	8,905	9,880	10,618	11,862	13,362	15,141

Source: World Bank, based on data from Kenya National Bureau of Statistics, National Treasury and Central Bank of Kenya

Table A2: GDP growth rates for Kenya and EAC (2015-2019)

	2015	2016	2017	2018	2019
Kenya	5.7	5.9	4.8	6.3	5.4
Uganda	5.2	4.8	3.9	6.2	6.5
Tanzania	6.2	6.9	6.8	5.4	5.8
Rwanda	8.9	6.0	6.1	8.6	9.4
Burundi	-3.9	-0.6	0.5	1.6	1.8
EAC	5.8	5.9	5.3	6.1	6.0

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

Table A3: Kenya annual GDP (2012-2019)

Years	GDP, current prices	GDP, 2009 constant prices	GDP/capita, current prices	GDP growth
	Ksh Millions	Ksh Millions	US\$	Percent
2012	4,261,370	3,444,339	1,137	4.6
2013	4,745,090	3,646,821	1,210	5.9
2014	5,402,647	3,842,186	1,316	5.4
2015	6,284,185	4,061,901	1,337	5.7
2016	7,022,963	4,300,699	1,411	5.9
2017	8,165,842	4,509,822	1,568	4.8
2018	8,892,111	4,792,174	1,711	6.3
2019	9,740,360	5,050,184	1,943	5.4

Source: Kenya National Bureau of Statistics and World Bank

Table A4: Broad sector growth (y-o-y, Percent)

Year	Quarterly	Agriculture	Industry	Services	GDP
2015	Q1	7.8	6.4	4.6	5.7
	Q2	4.4	7.0	5.6	5.6
	Q3	4.0	9.1	5.8	6.1
	Q4	4.5	6.6	5.5	5.5
2016	Q1	3.6	4.7	5.9	5.0
	Q2	7.6	6.6	5.4	6.1
	Q3	2.1	6.2	5.8	5.2
	Q4	5.2	6.2	8.1	7.2
2017	Q1	4.0	4.5	6.1	5.2
	Q2	0.5	4.0	6.3	4.4
	Q3	2.3	2.7	5.6	4.4
	Q4	-1.3	4.3	7.2	5.1
2018	Q1	6.7	4.5	6.5	6.2
	Q2	5.9	5.0	6.3	6.0
	Q3	6.8	6.0	6.7	6.6
	Q4	3.9	6.4	7.3	6.5
2019	Q1	4.7	4.7	6.1	5.5
	Q2	2.9	5.4	6.3	5.3
	Q3	2.4	4.7	6.3	5.2
	Q4	4.0	3.8	6.4	5.5

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 + Accommodation and restaurant + Transport and storage + Information and communication + Financial and insurance + Public administration + Professional administration and support services + Real estate + Education + Health + Other services + FISIM + Taxes on products

Table A5: Contribution by Broad sub-sectors (percentage points)

Year	Quarterly	Agriculture contribution to GDP	Industry by sub sector contribution				Industries	Service by sub sector contribution						Services
			Mining and quarrying	Manufacturing	Electricity and water supply	Construction		Accommodation and restaurant	Transport and storage	Real estate	Information and communication	Financial and insurance	Other	
2015	Q1	2.0	0.1	0.3	0.2	0.6	1.2	-0.1	0.5	0.5	0.3	0.6	0.6	2.3
	Q2	1.1	0.1	0.3	0.3	0.6	1.3	0.0	0.6	0.5	0.2	0.5	1.0	2.9
	Q3	0.8	0.2	0.5	0.2	0.8	1.7	0.0	0.7	0.6	0.2	0.7	1.1	3.4
	Q4	0.8	0.1	0.4	0.1	0.7	1.3	0.1	0.4	0.7	0.3	0.4	0.8	2.7
2016	Q1	1.0	0.1	0.2	0.2	0.4	0.9	0.1	0.5	0.7	0.4	0.5	0.8	3.0
	Q2	1.8	0.1	0.5	0.3	0.4	1.3	0.1	0.4	0.7	0.2	0.4	1.0	2.9
	Q3	0.4	0.1	0.4	0.2	0.5	1.2	0.1	0.3	0.7	0.3	0.4	1.3	3.1
	Q4	1.0	0.2	0.2	0.1	0.7	1.2	0.2	0.6	0.7	0.5	0.4	1.4	3.8
2017	Q1	1.1	0.1	0.2	0.2	0.4	0.8	0.3	0.5	0.5	0.5	0.2	0.9	2.9
	Q2	0.1	0.0	0.0	0.2	0.5	0.8	0.1	0.5	0.5	0.3	0.2	1.2	2.9
	Q3	0.4	0.0	0.0	0.2	0.3	0.5	0.1	0.4	0.5	0.4	0.1	1.3	2.9
	Q4	-0.2	0.0	0.0	0.1	0.7	0.8	0.1	0.7	0.5	0.5	0.1	1.8	3.6
2018	Q1	1.7	0.0	0.3	0.2	0.3	0.8	0.2	0.4	0.4	0.5	0.2	1.2	3.0
	Q2	1.4	0.0	0.4	0.2	0.3	1.0	0.1	0.4	0.4	0.4	0.2	1.4	3.0
	Q3	1.2	0.0	0.5	0.2	0.4	1.2	0.2	0.6	0.3	0.4	0.3	1.6	3.4
	Q4	0.7	0.0	0.5	0.2	0.5	1.2	0.3	0.9	0.3	0.6	0.5	1.5	4.1
2019	Q1	1.2	0.0	0.3	0.2	0.3	0.9	0.2	0.4	0.4	0.4	0.4	1.2	2.9
	Q2	0.7	0.0	0.4	0.2	0.4	1.0	0.1	0.5	0.5	0.3	0.3	1.5	3.2
	Q3	0.4	0.0	0.3	0.2	0.4	0.9	0.1	0.6	0.5	0.3	0.5	1.4	3.4
	Q4	0.7	0.0	0.2	0.2	0.4	0.7	0.2	0.7	0.4	0.5	0.4	1.3	3.5

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

Note: Other = Wholesale and retail trade + Public administration + Professional, administration and support services + Education + Health + Other services + FISIM

Table A6: 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
2015	Q1	59.6	7.8	7.8	7.0	6.4	6.4	-3.4	4.6	4.6	10.3	5.7	5.7
	Q2	-11.5	4.4	6.2	1.4	7.0	6.7	2.9	5.6	5.1	-1.2	5.6	5.7
	Q3	-21.1	4.0	5.6	-0.4	9.1	7.5	4.7	5.8	5.3	-2.5	6.1	5.8
	Q4	-6.2	4.5	5.3	-1.4	6.6	7.3	1.2	5.5	5.4	-0.7	5.5	5.7
2016	Q1	58.3	3.6	3.6	5.2	4.7	4.7	-3.0	5.9	5.9	9.8	5.0	5.0
	Q2	-8.1	7.6	5.5	3.3	6.6	5.7	2.5	5.4	5.6	-0.2	6.1	5.6
	Q3	-25.1	2.1	4.5	-0.8	6.2	5.9	5.1	5.8	5.7	-3.4	5.2	5.4
	Q4	-3.3	5.2	4.7	-1.4	6.2	5.9	3.4	8.1	6.3	1.2	7.2	5.9
2017	Q1	56.4	4.0	4.0	3.5	4.5	4.5	-4.8	6.1	6.1	7.8	5.2	5.2
	Q2	-11.2	0.5	2.3	2.9	4.0	4.3	2.7	6.3	6.2	-0.9	4.4	4.8
	Q3	-23.8	2.3	2.3	-2.1	2.7	3.8	4.5	5.6	6.0	-3.4	4.4	4.7
	Q4	-6.8	-1.3	1.6	0.1	4.3	3.9	5.0	7.2	6.3	1.9	5.1	4.8
2018	Q1	69.2	6.7	6.7	3.6	4.5	4.5	-5.4	6.5	6.5	8.9	6.2	6.2
	Q2	-11.9	5.9	6.3	3.4	5.0	4.7	2.4	6.3	6.4	-1.2	6.0	6.1
	Q3	-23.2	6.8	6.5	-1.1	6.0	5.2	4.9	6.7	6.5	-2.8	6.6	6.2
	Q4	-9.3	3.9	6.0	0.4	6.4	5.5	5.6	7.3	6.7	1.8	6.5	6.3
2019	Q1	70.5	4.7	4.7	2.0	4.7	4.7	-6.4	6.1	6.1	7.8	5.5	5.5
	Q2	-13.5	2.9	3.9	4.1	5.4	5.1	2.6	6.3	6.2	-1.3	5.3	5.4
	Q3	-23.5	2.4	3.5	-1.8	4.7	4.9	4.9	6.3	6.2	-2.9	5.2	5.3
	Q4	-7.9	4.0	3.6	-0.4	3.8	4.7	5.7	6.4	6.3	2.1	5.5	5.4

Source: World Bank and Kenya National Bureau of Statistics

Table A7: National Fiscal position

Actual (percent of GDP)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19*	2019/20**
Revenue and Grants	19.7	19.5	19.1	19.2	18.2	18.1	20.6
Total Revenue	19.2	19.0	18.7	18.8	17.9	18.2	20.1
Tax revenue	18.1	17.7	17.2	17.1	16.0	16.0	17.8
Income tax	8.9	8.7	8.4	8.2	7.5	7.3	7.7
VAT	4.6	4.5	4.3	4.4	4.2	4.4	4.5
Import Duty	1.3	1.3	1.2	1.2	1.1	1.2	1.2
Excise Duty	2.0	2.0	2.1	2.2	2.0	2.1	2.5
Other Revenues	1.3	1.3	1.2	1.1	1.3	1.1	1.8
Railway Levy	0.0	0.0	0.0	0.0	0.2	0.2	0.3
Appropriation in Aid	1.1	1.3	1.5	1.7	1.6	1.9	2.0
Grants	0.5	0.5	0.4	0.4	0.3	0.2	0.4
Expenditure and Net Lending	25.6	28.1	26.9	28.1	25.2	26.0	27.7
Recurrent	14.8	15.4	15.4	15.7	15.8	16.4	17.0
Wages and salaries	5.5	5.1	4.6	4.4	4.6	4.5	4.7
Interest Payments	2.7	2.9	3.2	3.5	3.8	4.0	4.3
Other recurrent	6.6	7.3	7.7	7.7	7.5	7.9	8.1
Development and net lending	6.3	8.8	7.3	8.4	5.5	5.8	7.0
County allocation	3.8	3.9	4.1	4.0	3.8	3.9	3.6
Contingencies	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Parliamentary Service	0.4	0.4	0.3	0.0	0.0	0.0	0.0
Judicial Service	0.3	0.2	0.2	0.0	0.0	0.0	0.0
Fiscal balance							
Deficit including grants (cash basis)	-6.1	-8.1	-7.1	-9.1	-7.4	-7.7	-6.3
Financing	6.1	8.1	7.1	9.1	7.4	7.7	6.3
Foreign Financing	4.0	3.7	4.0	5.0	4.2	4.4	3.4
Domestic Financing	2.1	4.3	3.0	4.0	3.2	3.2	2.9
Total Public Debt (gross)	47.8	48.8	53.8	57.5	59.1	62.3	62.3
External Debt	22.4	24.4	26.8	30.0	30.0	32.4	32.4
Domestic Debt	25.3	24.4	27.1	27.6	29.1	29.9	29.9
Memo:							
GDP (Fiscal year current market prices, Ksh bn)							

Source: 2019 Budget Review and Outlook Paper (BROP) and Quarterly Budgetary Economic Review (Second Quarter, Financial Year 2019/2020), National Treasury
Note: *indicate Preliminary results

Table A8: Kenya's Public and Publicly Guaranteed Debt, 2017 to Dec 2019

KShs. Millions	Sep-17	Dec-17	Mar-18	Jun-19	Sep-18	Dec-18	Mar-19	Jun-19*	Sep-19*	Dec-19*
TOTAL PUBLIC DEBT (Net)	4,048,978	4,217,515	4,304,497	4,488,204	4,639,062	4,834,759	5,021,658	5,301,646	5,446,522	5,518,474
Lending	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
Government Deposits	(432,113)	(350,924)	(573,884)	(545,075)	(501,404)	(432,049)	(398,223)	(501,728)	-516,182	-524,752
Total Public Debt (Gross)	4,486,793	4,574,140	4,884,082.0	5,038,981.0	5,146,167.0	5,272,509.0	5,425,582.0	5,809,075	5,968,406	6,048,927
External Debt	2,310,198	2,353,795	2,512,431	2,560,199	2,605,333	2,723,734	2,721,598	3,023,138	3,111,767	3,106,823
Bilateral	742,064	782,588	800,912	816,119	812,545	894,046	916,572	996,059	1,024,092	1,037,538
Multilateral	842,814	841,847	836,766	820,966	877,730	874,680	846,587	914,394	1,001,817	1,023,821
Commercial Banks	708,231	712,274	858,062	906,389	898,349	938,151	941,763	1,095,753	1,068,664	1,028,691
Suppliers Credit	17,089	17,086	16,691	16,725	16,709	16,857	16,676	16,932	17,194	16,773
Domestic Debt	2,176,595	2,220,345	2,371,651	2,478,782	2,540,834	2,548,775	2,703,984	2,785,937	2,856,639	2,942,104
Central Bank	79,201	96,797	93,583	110,782	90,209	118,196	90,264	109,607	120,494	115,972
Commercial Banks	1,148,296	1,124,950	1,226,866	1,266,404	1,315,464	1,289,564	1,402,668	1,414,431	1,415,011	1,491,438
Non Banks & Nonresidents	949,098	998,598	1,051,202	1,101,596	1,135,161	1,141,015	1,211,052	1,261,899	1,321,134	1,334,694
(%) of Total public debt (gross)										
External Debt	51.5	51.5	51.4	50.8	50.6	51.7	50.2	52.0	52.1	51.4
Domestic Debt	48.5	48.5	48.6	49.2	49.4	48.3	49.8	48.0	47.9	48.6
% of External debt										
Bilateral	32.1	33.2	31.9	31.9	31.2	32.8	33.7	32.9	32.9	33.4
Multilateral	36.5	35.8	33.3	32.1	33.7	32.1	31.1	30.2	32.2	33.0
Commercial Banks	30.7	30.3	34.2	35.4	34.5	34.4	34.6	36.2	34.3	33.1
Suppliers Credit	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5
% of Domestic debt										
Central Bank	3.6	4.4	3.9	4.5	3.6	4.6	3.3	3.9	4.2	3.9
Commercial Banks	52.8	50.7	51.7	51.1	51.8	50.6	51.9	50.8	49.5	50.7
Non Banks & Nonresidents	43.6	45.0	44.3	44.4	44.7	44.8	44.8	45.3	46.2	45.4

Source: National Treasury (Quarterly Economic Budgetary Review/February 2020)

Note: *Provisional

Table A9: 12-months cumulative balance of payments

BPM6 Concept (US\$ million)

	2013	2014	2015	2016	2017	2018	2019
A. Current Account, n.i.e.	(5,427)	(6,442)	(4,303)	(3,387)	(4,868)	(4,349)	(4,399)
Merchandise A/C	(10,220)	(10,775)	(8,388)	(7,666)	(10,201)	(10,238)	(10,301)
Goods: exports f.o.b.	5,870	6,155	5,970	5,745	5,792	6,106	5,891
Goods: imports f.o.b.	16,089	16,929	14,358	13,411	15,994	16,344	16,192
Oil	3,838	4,026	2,500	2,087	2,728	3,386	
Services	2,318	1,676	1,317	1,432	1,556	1,613	1,612
Services: credit	5,130	5,023	4,636	4,164	4,648	5,477	5,421
Services: debit	2,813	3,347	3,319	2,732	3,092	3,865	3,809
Income	2,475	2,657	2,769	2,847	3,778	4,277	4,290
B. Capital Account, n.i.e.	158	275	262	206	184	262	214
C. Financial Account, n.i.e.	(5,204)	(7,398)	(3,914)	(4,424)	(5,288)	(6,548)	(6,120)
Direct investment: net	(920)	(746)	(382)	(523)	(1,019)	(1,460)	(1,066)
Portfolio investment: net	(273)	(3,716)	156	350	789	(627)	(1,328)
Financial derivatives: net	-	-	-	5	(0)	2	(5)
Other investment: net	(4,011)	(2,936)	(3,688)	(4,255)	(5,057)	(4,464)	(3,720)
D. Net Errors and Omissions	434	221	(128)	(1,112)	(767)	(1,418)	(880)
E. Overall Balance	(369)	(1,453)	255	(131)	163	(1,044)	(1,055)
F. Reserves and Related Items	369	1,453	(255)	131	(163)	1,044	1,055
Reserve assets	859	1,333	(361)	40	(241)	885	905.27
Credit and loans from the IMF	177	(119)	(107)	(91)	(77)	(160)	-149.87
Exceptional financing	312	-	-	-	-	-	0
Gross Reserves (USD Million)	8,483	9,738	9,794	9,588	9,646	11,516	12,851
Official	6,560	7,895	7,534	7,573	7,332	8,231	9,116
Commercial Banks	1,923	1,843	2,259	2,015	2,314	3,286	3,735
Imports cover (36 months import)	4.5	5.1	4.8	5.0	5.0	5.4	5.5
Memo:							
Annual GDP at Current prices (USD Million)	54,978	59,735	61,497	68,763	78,998	87,055	97,426

Source: Central Bank of Kenya

Table A10: Inflation

Year	Month	Overall Inflation	Food Inflation	Energy Inflation	Core Inflation
2017	January	7.0	12.5	0.7	3.3
	February	9.2	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
	March	4.2	2.2	8.2	4.1
	April	3.7	0.3	10.2	4.1
	May	4.0	0.3	11.4	3.9
	June	4.3	0.9	11.9	4.0
	July	4.4	0.5	12.4	4.1
	August	4.0	1.2	14.2	4.3
	September	5.7	0.5	17.4	4.5
	October	5.5	0.5	16.5	4.7
	November	5.6	1.7	14.3	4.4
	December	5.7	2.5	13.8	4.0
2019	January	4.7	1.6	12.1	3.4
	February	4.1	1.1	11.4	3.1
	March	4.4	2.8	8.8	3.1
	April	6.6	8.2	7.5	3.1
	May	5.5	6.3	6.7	3.0
	June	5.7	7.0	6.3	2.9
	July	6.3	8.5	6.2	2.7
	August	5.0	7.1	4.0	2.3
	September	3.8	6.3	1.3	2.1
	October	5.0	8.7	1.5	1.9
	November	5.6	9.6	2.3	1.9
	December	5.8	10.0	2.5	1.8
2020	January	5.8	6.4	5.7	2.6
	February	6.4	9.6	3.2	1.9
	March	6.1	10.6	3.7	4.0

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

Table A11: Credit to Private Sector Growth (%)

Year	Month	Total Private sector annual growth rates	Agriculture	Manufacturing	Trade	Building and construction	Transport and communication	Finance and insurance	Real estate	Mining and quarrying	Private house-holds	Consumer durables	Business services	Other activities
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
2018	January	1.9	-7.6	12.0	5.1	5.4	-10.9	-1.3	8.2	-6.7	-1.4	1.4	0.0	-10.6
	February	2.2	-12.9	13.1	6.8	4.8	-13.9	4.9	8.4	-6.7	-2.7	2.3	-0.3	-2.2
	March	2.1	-6.2	11.2	5.4	12.6	-18.4	11.6	4.5	-2.7	-0.7	4.7	-0.5	-6.3
	April	2.9	-4.4	10.1	5.0	14.3	-17.8	10.1	3.6	-4.4	2.6	5.0	2.8	-2.2
	May	3.9	-3.3	12.1	6.8	9.2	-14.9	2.6	3.7	-3.5	3.8	5.5	11.0	-7.5
	June	4.3	-4.7	12.2	8.5	13.3	-12.7	3.8	3.8	-9.1	2.9	7.8	6.7	-7.9
	July	4.3	-6.5	11.5	6.5	13.5	-10.7	8.5	4.3	0.2	2.9	9.1	3.3	-5.8
	August	4.3	-4.3	13.2	6.9	14.7	-11.0	3.5	0.9	-9.1	2.7	11.5	6.5	-4.6
	September	3.8	-6.0	11.9	3.2	11.1	-9.1	6.6	1.7	-15.5	5.1	7.8	4.3	2.7
	October	4.4	-5.6	14.8	4.0	7.1	-7.7	9.1	1.2	-11.6	5.1	7.6	12.1	-12.4
	November	3.0	-0.1	10.6	3.2	8.9	-10.7	5.3	-1.1	-10.6	5.4	8.9	9.5	-23.4
	December	2.4	-2.0	6.5	2.9	1.8	-9.4	17.5	-0.5	-10.7	6.8	11.0	8.0	-34.8
2019	January	3.0	-0.2	6.5	6.6	1.4	-6.5	15.4	-2.6	-14.5	5.6	15.4	0.0	-27.2
	February	3.4	-2.6	7.7	6.4	2.6	-0.7	13.1	-2.9	-13.4	6.6	16.1	0.3	-33.1
	March	4.3	0.2	7.2	8.7	-7.0	5.7	10.2	-0.1	-11.4	8.0	13.9	-0.4	-31.7
	April	4.9	2.5	7.9	8.4	-6.5	6.4	13.3	-0.7	-12.5	7.9	16.4	1.1	-29.6
	May	4.4	2.7	6.5	7.6	-4.1	6.2	6.7	-0.5	-7.9	7.8	18.0	-1.2	-32.0
	June	5.2	3.9	11.4	5.5	-6.3	5.8	4.7	1.0	-4.3	7.6	21.3	-3.2	-22.6
	July	6.1	7.6	10.3	8.0	-5.4	6.4	5.3	0.5	-13.5	7.1	23.6	1.6	-17.2
	August	6.3	6.6	7.5	8.4	-6.0	5.8	8.2	2.4	-10.8	8.6	23.0	-0.1	-14.4
	September	7.0	5.5	7.5	7.6	-5.3	5.0	14.5	2.2	-5.1	8.8	28.4	3.2	-13.6
	October	6.6	-5.2	6.4	10.2	-5.5	4.8	15.1	0.4	0.1	5.3	28.6	-0.4	12.7
	November	7.3	-6.1	7.5	8.8	-6.1	9.8	15.8	1.9	-3.2	6.1	25.9	-0.3	30.9
	December	7.1	-2.4	9.2	8.9	1.6	8.1	0.4	1.5	-5.8	5.6	26.0	2.4	16.0
2020	January	7.3	-4.8	12.7	6.0	4.0	9.9	-1.1	3.5	-9.4	5.6	21.4	1.5	24.4
	February	7.7	0.2	10.4	9.5	-0.5	7.4	1.9	3.4	-14.6	5.9	20.6	2.4	33.4

Source: Central Bank of Kenya

Table A12: Mobile payments

Year	Month	Number of Agents	Number of customers (Millions)	Number of transactions (Millions)	Value of transactions (Billions)
2017	January	152,547	33.3	122.0	299.5
	February	154,908	33.3	117.5	279.4
	March	157,855	33.9	133.3	320.2
	April	160,076	34.3	128.9	297.4
	May	164,674	34.2	132.5	315.4
	June	165,109	34.2	125.9	299.8
	July	169,480	34.6	128.1	308.9
	August	167,353	35.3	120.6	286.3
	September	167,775	35.5	128.5	300.9
	October	170,389	36.0	134.2	299.0
	November	176,986	36.4	131.7	299.0
	December	182,472	37.4	139.9	332.6
2018	January	188,029	37.8	136.7	323.0
	February	192,117	38.4	132.3	300.9
	March	196,002	39.3	147.5	337.1
	April	201,795	40.3	142.1	313.0
	May	202,387	41.7	141.0	329.0
	June	197,286	42.6	137.4	317.7
	July	200,227	42.6	143.1	332.4
	August	202,627	43.6	149.5	348.9
	September	203,359	44.3	146.0	327.7
	October	211,961	45.4	155.2	343.2
	November	206,312	46.2	153.2	343.9
	December	205,745	47.7	155.8	367.8
2019	January	201,336	40.3	154.2	368.0
	February	212,252	50.0	144.5	328.2
	March	226,957	50.4	161.4	368.4
	April	230,220	52.0	155.8	360.2
	May	224,825	52.2	153.3	364.3
	June	222,484	46.8	149.7	346.8
	July	222,087	53.9	153.0	366.4
	August	222,479	54.8	151.8	368.5
	September	224,959	55.7	151.2	365.9
	October	223,176	56.3	156.1	366.9
	November	222,211	58.0	153.1	359.3
	December	224,108	58.4	155.0	382.9
2020	January	231,292	59.2	150.2	371.9
	February	235,543	58.7	148.5	350.5

Source: Central Bank of Kenya

Table A13: Exchange rate

Year	Month	USD	UK Pound	Euro
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
	February	101.4	141.7	125.3
	March	101.2	141.2	124.7
	April	100.6	141.9	123.7
	May	100.7	135.7	119.0
	June	101.0	134.2	118.0
	July	100.7	132.6	117.5
	August	100.6	129.7	116.2
	September	100.8	131.7	117.7
	October	101.1	131.6	116.2
	November	102.4	132.1	116.4
	December	102.3	129.7	116.4
2019	January	101.6	130.8	116.0
	February	100.2	130.3	113.8
	March	100.4	132.3	113.5
	April	101.1	131.8	113.6
	May	101.2	130.1	113.2
	June	101.7	128.8	114.7
	July	103.2	128.8	115.8
	August	103.3	125.6	115.0
	September	103.8	128.2	114.4
	October	103.7	133.7	114.4
	November	102.4	132.0	113.2
	December	101.0	132.9	112.7
2020	January	101.1	132.2	112.3
	February	100.8	130.8	109.9
	March	103.7	128.5	114.7

Source: Central Bank of Kenya

Table A14: Nairobi Securities Exchange
(NSE 20 Share Index, Jan 1966=100, End - month)

Year	Month	NSE 20 Share Index
2017	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
	February	3,751
	March	3,845
	April	3,705
	May	3,353
	June	3,286
	July	3,297
	August	3,203
	September	2,876
	October	2,810
	November	2,797
	December	2,834
2019	January	2,958
	February	2,894
	March	2,846
	April	2,797
	May	2,677
	June	2,633
	July	2,628
	August	2,468
	September	2,432
	October	2,643
	November	2,619
	December	2,654
2020	January	2,600
	February	2,338

Source: Central Bank of Kenya



Table A15: Central Bank Rate and Treasury Bills

Year	Month	Central Bank Rate	91-Treasury Bill	182-Treasury Bill	364-Treasury Bill
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	10.4	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	8.0	10.4	11.1
	April	9.5	8.0	10.3	11.1
	May	9.5	8.0	10.3	11.1
	June	9.5	7.8	9.9	10.8
	July	9.0	7.7	9.3	10.3
	August	9.0	7.6	9.0	10.0
	September	9.0	7.6	8.8	9.8
	October	9.0	7.6	8.5	9.6
	November	9.0	7.4	8.3	9.5
	December	9.0	7.3	8.4	9.7
2019	January	9.0	7.6	8.9	10.0
	February	9.0	7.0	8.6	9.6
	March	9.0	7.1	8.3	9.4
	April	9.0	7.4	8.1	9.4
	May	9.0	7.2	7.9	9.3
	June	9.0	6.9	7.6	9.2
	July	9.0	6.6	7.4	8.8
	August	9.0	6.4	7.1	9.2
	September	9.0	6.4	7.1	9.6
	October	9.0	6.4	7.2	9.8
	November	8.5	6.6	7.6	9.8
	December	8.5	7.2	8.2	9.8
2020	January	8.3	7.2	8.2	9.8
	February	8.3	7.3	8.2	9.9
	March	7.3	7.3	8.1	9.2

Source: Central Bank of Kenya

Table A16: Interest rates

Year	Month	Short-term			Long-term			
		Interbank	91-Treasury Bill	Central Bank Rate	Average deposit rate	Savings	Overall weighted lending rate	Interest Rate Spread
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	7.7	5.9	13.7	6.0
	September	5.5	8.1	10.0	7.7	6.4	13.7	6.0
	October	7.8	8.1	10.0	8.0	6.9	13.7	5.7
	November	8.9	8.0	10.0	8.1	6.9	13.7	5.6
	December	7.3	8.0	10.0	8.2	6.9	13.6	5.4
2018	January	6.2	8.0	10.0	8.3	7.0	13.7	5.4
	February	5.1	8.0	10.0	8.3	7.0	13.7	5.4
	March	4.9	8.0	9.5	8.2	6.8	13.5	5.3
	April	5.4	8.0	9.5	8.2	6.7	13.2	5.1
	May	4.9	8.0	9.5	8.1	6.6	13.2	5.2
	June	5.0	7.8	9.5	8.0	6.6	13.2	5.2
	July	4.8	7.7	9.0	8.0	6.5	13.1	5.1
	August	6.6	7.6	9.0	7.8	6.5	12.8	5.0
	September	4.5	7.6	9.0	7.8	6.3	12.7	4.9
	October	3.5	7.6	9.0	7.6	5.7	12.6	5.0
	November	4.1	7.4	9.0	7.4	5.4	12.6	5.1
	December	8.0	7.3	9.0	7.4	5.1	12.5	5.1
2019	January	3.3	7.6	9.0	7.3	5.1	12.5	5.2
	February	2.5	7.0	9.0	7.3	5.2	12.5	5.2
	March	3.7	7.1	9.0	7.2	5.1	12.5	5.3
	April	4.2	7.4	9.0	7.2	4.7	12.5	5.3
	May	5.6	7.2	9.0	7.2	4.7	12.5	5.3
	June	3.0	6.9	9.0	7.2	4.8	12.5	5.3
	July	2.3	6.6	9.0	7.0	4.8	12.4	5.4
	August	3.7	6.4	9.0	6.9	4.5	12.5	5.6
	September	6.9	6.4	9.0	7.0	4.6	12.5	5.5
	October	6.9	6.4	9.0	7.0	4.4	12.4	5.5
	November	4.2	6.6	8.5	6.6	4.5	12.4	5.8
	December	6.0	7.2	8.5	7.1	4.0	12.2	5.1
2020	January	4.4	7.2	8.3	7.1	4.3	12.3	5.2
	February	4.3	7.3	8.3				
	March	4.4	7.3	7.3				

Source: Central Bank of Kenya

Table A17: Money aggregate (Growth rate y-o-y)

Year	Growth rates (yoy)	Money supply, M1	Money supply, M2	Money supply, M3	Reserve money
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	7.2	8.9	8.8	8.3
	February	7.6	9.0	7.9	6.3
	March	3.5	6.2	5.9	0.8
	April	3.2	6.0	5.5	2.7
	May	3.1	6.5	7.5	5.5
	June	2.5	8.1	10.4	7.4
	July	3.9	8.4	10.1	2.1
	August	3.0	7.2	9.1	6.6
	September	0.6	6.2	8.5	6.0
	October	3.8	7.6	9.1	7.4
	November	2.4	6.5	8.4	9.0
	December	6.6	8.0	10.1	12.1
2019	January	7.4	8.4	10.5	5.4
	February	5.6	7.3	10.3	4.7
	March	11.7	10.8	12.5	9.1
	April	6.8	8.7	10.7	8.3
	May	6.7	8.3	8.7	12.1
	June	10.5	9.8	9.2	2.5
	July	5.3	6.9	7.0	-1.2
	August	6.0	6.1	6.3	-6.5
	September	5.8	6.7	6.5	-9.4
	October	3.0	6.3	7.5	-7.8
	November	3.6	5.6	5.9	-6.1
	December	3.2	5.4	5.6	-6.3
2020	January	4.1	5.7	5.5	-3.6
	February	7.3	8.1	7.9	2.3

Source: Central Bank of Kenya and World Bank

Table A18: Coffee production and exports

Year	Month	Production MT	Price Ksh/Kg	Exports MT	Exports value Ksh Million
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	2,834	1,612
	March	4,913	478	3,936	2,237
	April	4,194	305	4,550	2,822
	May	4,620	217	5,573	3,209
	June	-	-	4,649	2,664
	July	1,221	357	4,683	2,457
	August	2,235	337	2,973	1,547
	September	2,299	289	2,520	1,141
	October	2,493	321	3,521	1,467
	November	2,334	368	4,619	1,730
	December	1,577	404	2,312	921
2019	January	4,167	453	3,469	1,499
	February	5,724	449	4,567	1,903
	March	4,057	298	4,351	2,256
	April	5,307	203	4,552	2,501
	May	4,084	200	5,490	2,700
	June	2,021	192	4,549	1,964
	July	672	197	5,115	1,713
	August	1,647	217	3,932	1,462
	September	1,522	233	3,145	1,113
	October	2,541	260	3,986	1,390
	November	1,117	332	3,664	1,176
	December	771			
2020	January	3,049			

Source: Kenya National Bureau of Statistics

Table A19: Tea production and exports

Year	Month	Production MT	Price Ksh/Kg	Exports MT	Exports value Ksh Million
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
	February	27,939	302	47,357	14,657
	March	30,987	284	34,488	10,471
	April	44,580	268	33,565	9,830
	May	43,356	263	42,533	11,703
	June	43,299	257	45,182	12,463
	July	35,278	251	45,242	12,226
	August	37,433	241	38,023	9,919
	September	42,531	243	40,268	10,479
	October	49,284	244	43,894	11,327
	November	45,649	242	44,108	11,015
	December	51,830	236	38,681	9,781
2019	January	48,386	234	48,623	11,831
	February	31,445	216	41,027	9,638
	March	26,462	214	42,457	9,910
	April	26,131	228	36,884	8,631
	May	37,759	242	36,994	9,293
	June	42,425	219	29,355	7,154
	July	31,458	205	33,657	7,788
	August	37,200	218	41,276	9,458
	September	35,533	229	36,325	8,463
	October	46,306	242	45,374	11,065
	November	45,087		43,650	10,735
	December	50,660			
2020	January	53,636			

Source: Kenya National Bureau of Statistics

Table A20: Local Electricity Generation by Source

Year	Month	Hydro KWh Million	Geo-thermal KWh Million	Thermal KWh Million	Wind KWh Million	Total KWh Million
2017	January	252	380	197	7.0	837
	February	214	354	182	7.5	758
	March	234	388	230	6.3	858
	April	212	381	223	6.6	822
	May	229	394	224	3.5	849
	June	180	376	274	3.1	834
	July	193	402	271	1.5	867
	August	251	415	159	3.3	829
	September	239	403	213	3.6	859
	October	217	416	224	4.3	861
	November	305	411	153	7.1	877
	December	250	436	184	7.3	879
2018	January	223	430	242	3	900
	February	193	387	249	7	837
	March	248	448	202	4	903
	April	317	428	139	3	887
	May	386	447	83	2	918
	June	401	430	82	1	914
	July	420	438	87	2	947
	August	417	427	117	3	964
	September	392	440	85	7	925
	October	365	432	87	77	962
	November	340	398	80	133	957
	December	283	423	92	133	939
2019	January	279	417	114	148	966
	February	254	374	99	146	880
	March	283	445	99	144	979
	April	192	398	181	142	921
	May	243	427	110	164	952
	June	272	413	146	92	932
	July	269	440	133	125	975
	August	251	425	132	151	968
	September	234	454	105	153	953
	October	268	494	70	137	977
	November	299	482	62	114	965
	December	361	464	62	46	940

Source: Kenya National Bureau of Statistics

Table A21: Soft drinks, Sugar, Galvanized sheets and Cement production

Year	Month	Soft drinks litres (thousands)	Sugar MT	Galvanized sheets MT	Cement MT
2017	January	50,409	53,071	26,230	565,440
	February	43,353	49,094	22,994	491,307
	March	50,623	42,238	22,574	570,522
	April	46,399	26,230	23,225	535,061
	May	40,742	15,246	23,081	482,762
	June	45,875	16,113	15,424	513,313
	July	41,980	17,882	22,640	553,631
	August	41,217	10,892	15,296	451,651
	September	40,221	21,649	24,188	498,167
	October	45,275	32,296	21,312	498,374
	November	45,073	43,175	24,357	483,956
	December	66,378	49,240	21,438	518,410
2018	January	52,062	62,819	23,919	494,709
	February	49,685	53,833	21,890	490,020
	March	52,580	49,148	22,048	476,730
	April	45,690	36,682	21,434	474,740
	May	41,482	28,933	22,271	452,034
	June	44,827	28,320	21,434	454,322
	July	43,725	30,105	23,252	465,575
	August	48,795	35,646	22,630	473,861
	September	45,956	37,652	23,509	460,546
	October	46,546	45,324	23,906	470,524
	November	50,201	38,768	22,877	460,967
	December	54,021	38,268	21,266	461,922
2019	January	52,062	53,060	20,105	485,178
	February	50,806	46,139	22,739	470,146
	March	51,419	45,418	26,290	507,037
	April	54,515	34,521	23,198	503,722
	May	50,671	35,257	22,480	486,903
	June	45,054	28,544	24,663	481,681
	July	43,170	25,097	23,248	499,945
	August	47,161	32,705	21,900	495,099
	September	47,094	33,365	22,598	482,593
	October		35,259		497,930
	November				479,085
	December				496,517
2020	January				530,404

Source: Kenya National Bureau of Statistics

Table A22: Tourism arrivals

Year	Month	JKIA	MIA	TOTAL
2017	January	67,876	11,482	79,358
	February	62,659	7,809	70,468
	March	65,095	8,406	73,501
	April	63,842	4,128	67,970
	May	65,711	2,678	68,389
	June	75,049	5,072	80,121
	July	97,955	7,284	105,239
	August	79,053	10,729	89,782
	September	78,329	9,111	87,440
	October	56,034	7,557	63,591
	November	61,617	10,956	72,573
	December	90,745	15,117	105,862
2018	January	105,262	14,533	119,795
	February	98,532	12,792	111,324
	March	100,441	11,024	111,465
	April	94,236	5,205	99,441
	May	93,730	4,735	98,465
	June	114,097	5,157	119,254
	July	141,763	9,025	150,788
	August	145,231	9,589	154,820
	September	114,539	9,916	124,455
	October	115,597	9,343	124,940
	November	103,229	8,391	111,620
	December	115,856	18,403	134,259
2019	January	113,050	15,740	128,790
	February	106,198	12,761	118,959
	March	93,571	20,159	113,730
	April	103,522	4,769	108,291
	May	98,596	3,591	102,187
	June	122,122	6,650	128,772
	July	149,994	8,520	158,514
	August	148,816	10,988	159,804
	September	121,668	9,199	130,867
	October	138,033	11,157	149,190
	November	108,755	12,315	121,070
	December	119,646	12,373	132,019

Source: Kenya National Bureau of Statistics
Note: JKIA (Jomo Kenyatta International Airport), MIA (Moi International Airport)

Turbulent Times for Growth in Kenya

Policy Options during the COVID-19 Pandemic

The COVID-19 pandemic threatens both lives and livelihoods. Its impact on Kenya's healthcare system, society, and the economy has been rapid and generated an unprecedented degree of uncertainty. Kenya faces an uncertain path as the COVID-19 shock, in addition to inflicting tragic loss of life and direct human suffering from illness, has very large, negative economic impacts. Against this challenging backdrop, the twenty-first edition of the World Bank's Kenya Economic Update provides a detailed update of recent economic developments and the outlook, and discusses policy options to help confront the crisis.

Stepping-up spending on the health sector to strengthen the capacity to cope with potential spikes in COVID-19 cases, and to flatten the epidemic curve over the short-run through health policy containment measures, remains a top priority. The authorities have already embarked on doing this, with additional budget allocation to the health sector to expand its capacity, including by procuring additional intensive care unit beds and respiratory-support machines. The emphasis should remain on quickly and efficiently deploying the additional resources to strengthen the health system's capacity to cope the spread of the virus. A COVID-19 facility credit from the World Bank was quickly approved for \$50 million on April 2. These resources will help the Kenyan government acquire critical supplies such as personal protective equipment and testing kits. Efforts are also under way to expand the necessary facilities to deal with a potential surge in cases, which might require isolation facilities in counties, additional intensive care units and respiratory-support machines.

Measures to channel income and cash flow support to hard-hit households and firms are called for, given the scale of the economic shock, but such measures should be timely, targeted and temporary, especially since Kenya enters into this crisis with already stretched public finances. Economic policies should focus on reducing the immediate economic fallout and social pressures associated with social distancing and measures to contain the spread of COVID-19.

Like all governments around the world, the Kenyan authorities face a difficult task in the face of huge uncertainties to minimize the loss of life and livelihoods in the face of the virus. Social distancing and other containment measures have helped to delay the spread of COVID-19, likely preventing unnecessary loss of life by preventing the healthcare system from being overwhelmed and buying time to strengthen it. Nonetheless, the containment measures are also costly to incomes and jobs by reducing social interaction, production and demand. This cost is aggravated by presence of a large informal sector in Kenya (accounting for at least 70% of employment), relatively high poverty rate, and significant unemployment rate among the youth. Government will need to continue to calibrate the response across the spectrum of containment options, and in doing so can be aided by maintaining a strong focus throughout on supporting the most poor and vulnerable households, including through cash transfers.

World Bank Group

Delta Center

Menengai Road, Upper Hill

P. O. Box 30577 – 00100

Nairobi, Kenya

Telephone: +254 20 2936000

Fax: +254 20 2936382

<http://www.worldbank.org/en/country/kenya>

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