

KENYA

Table 1 **2019**

Population, million	52.2
GDP, current US\$ billion	95.5
GDP per capita, current US\$	1829.1
International poverty rate (\$ 19) ^a	37.1
Lower middle-income poverty rate (\$3.2) ^a	66.5
Upper middle-income poverty rate (\$5.5) ^a	86.6
Gini index ^a	40.8
School enrollment, primary (% gross) ^b	103.2
Life expectancy at birth, years ^b	66.3

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2015), 2011 PPPs.

(b) WDI for School enrollment (2016); Life expectancy (2018)

The COVID-19 pandemic has imposed a heavy toll on lives and livelihoods, with a collapse in aggregate demand and rising uncertainty. Nonetheless, ongoing policy responses to the crisis and a gradual re-opening of the economy are leading to a recovery in the second half of 2020. Kenya's reduction in poverty has slowed but is expected to return to pre-crisis levels after 2020 and needs to be supported by more inclusive policy responses. More prolonged pandemic, severe global recession, and adverse weather constitute downside risks.

Recent developments

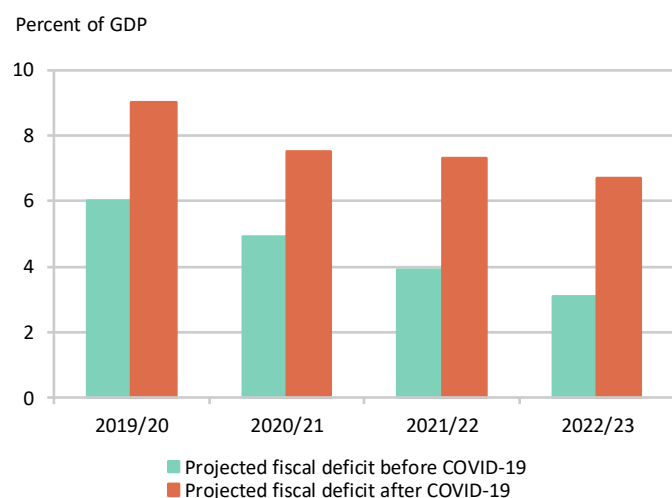
The COVID-19 pandemic has hit the Kenyan economy hard, sharply reducing economic activity and generating uncertainty about future prospects. Real GDP growth moderated to 4.9 percent in Q1 2020 (from 5.5 percent in Q1 2019), before the main impact of the pandemic, and Q2 experienced contractions in industrial output (reductions in electricity and vehicle assembly production) and, especially, services (accommodation and transport sectors). GDP growth for 2020 is projected to dip to 1.5 percent—about 4.3 percentage points less than pre-COVID projections. In response, the government has deployed fiscal and monetary policy measures to support the healthcare system, protect vulnerable households, and support businesses. These policy responses, together with a gradual reopening of the economy are leading to a modest recovery. Headline inflation has remained within the government target band around 5 percent due to relatively low food and energy prices, providing space for accommodative monetary policy. Furthermore, core inflation (excluding food and energy), decreased to 2.0 percent in H1 2020 from 3.1 percent in H1 2019. This is consistent with an economy where demand pressures are benign, and where there is a large negative output gap. Accordingly, the Central Bank of Kenya has eased the policy rate by 150 basis points, to 7.0 percent in June 2020. Private sector credit growth has picked up modestly, rising 7.6

percent year-on-year (in June 2020), up from very low levels (5.2 percent in June 2019).

The current account deficit narrowed to 4.8 percent of GDP in June 2020, partially due to a decline in imports, which more than offset the decrease in exports. In the year to June 2020, remittance inflows have held broadly steady at 2.9 percent of GDP, while tourism receipts have contracted by about 10 percent due to COVID-19. The current account deficit was financed largely by official government borrowing. Foreign reserves rose to US\$9.7 billion in June 2020 (5.9 months of import cover), which continues to provide an adequate buffer against short-term external shocks.

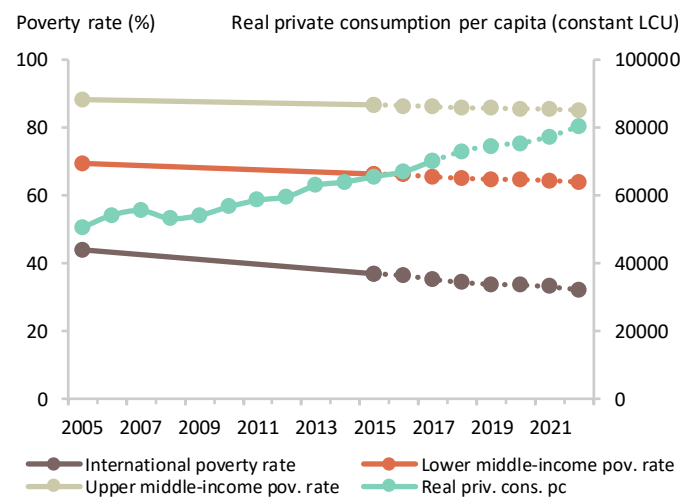
The government deployed fiscal stimulus (of 3 percent of GDP) to address the economic fallout of COVID-19, reversing the previously planned fiscal consolidation. It increased spending to strengthen the capacity of healthcare system, provided cash transfers to households, and supported businesses through expediting VAT refunds and clearing arrears. The slowdown in economic activity and tax cuts to cushion households and businesses led to a 1.3 percent of GDP shortfall in revenue collection. The fiscal deficit in FY2019/20 was 7.8 percent of GDP, compared with the original budget target of 6.0 percent. Government debt has continued to increase, reaching 65.6 percent of GDP at the end of FY2019/20. As Kenya's exports have declined due to shocks from the pandemic, rising public debt increases fiscal pressure associated with debt services obligations. Expenditure on interest payments stood at 4.3 percent of GDP in 2019/20.

FIGURE 1 Kenya / Projected fiscal deficit before and after COVID-19



Sources: The National Treasury, Budget Policy Statement 2020; Budget Statement June 2020; and 2020 Budget Review and Outlook Paper.

FIGURE 2 Kenya / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

Over one-quarter of wage employees working in January 2020 were laid off in March due to the pandemic, while remaining workers in industry and services sectors face reduced working hours and pay. The national poverty rate decreased to 36.1 percent in 2015/16 from 46.8 percent in 2005/06, mainly due to progress in rural areas. The international poverty rate continued to drop to 34.0 percent in 2019, but only slightly decreased in 2020 to 33.8 percent due to the impact of COVID-19 based on simulations using the empirical relationship between real GDP growth and poverty.

Outlook

Kenya's economy is projected to rebound by 5.2 percent in 2021 and accelerate with GDP growth of 5.7 percent in 2022. This would be supported by improved investor confidence soon after the COVID-19 pandemic is contained. Agricultural output growth of 4.1 percent over the medium term assumes no adverse weather shocks and that recent reforms to improve the use of fertilizers and farm inputs are successful. Industrial growth of 4.0 percent in the base case will be supported by the supply of

agricultural inputs, a recovery in domestic consumption, and steady public infrastructural spending. The services sector is projected to grow by 6.5 percent in the medium term as the COVID-19 crisis abates and domestic trade, transport, accommodation, and education activities rebound, supported by accommodative monetary policy and private credit growth. Inflation should remain moderate as supply disruptions associated with pandemic-related travel restrictions ease, and assuming the absence of major weather shocks that could affect food prices. The current account deficit is expected to remain below 5 percent of GDP, assuming the continued resilience of remittance inflows, while exports of Kenya's main products (horticulture and tea) recover to pre-crisis levels.

With a stable population growth, per capita private consumption is projected to increase by less than one percent to Ksh.75,370 in 2020, before a return to pre-crisis growth rates in 2021. The international poverty rate is expected to return to its pre-COVID-19 downward trend, declining by just over half a percentage point in 2021. Accelerating the pace of poverty reduction will require policy interventions to raise agricultural productivity, create jobs, and sustain safety net programs.

Risks and challenges

The risks to the baseline growth outlook are tilted to the downside. A renewed acceleration in community transmission of the virus could disrupt domestic economic activity. Unanticipated droughts could reduce agricultural output and rural incomes, as would a worsening and regional spread of the locust infestation. A more prolonged than anticipated pandemic and global economic recession would weigh on Kenya's export earnings, including from the important tourism sector.

There is a continued role for policies to support firms and households to navigate the ongoing COVID-19 pandemic and lay a strong foundation for a resilient recovery. Following the pause in fiscal consolidation, which was appropriate in view of the need to save lives and support livelihoods, there is now a need to put in place a revised medium-term fiscal consolidation plan, and commit credibly to this, in order to preserve debt sustainability, begin to rebuild Kenya's fiscal buffer, and increase space to increase private sector credit and investment while ensuring that household livelihoods retain space for recovery from COVID-19.

TABLE 2 Kenya / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.8	6.3	5.4	1.5	5.2	5.7
Private Consumption	7.4	6.5	5.0	3.3	5.1	6.3
Government Consumption	3.9	5.6	4.9	5.7	4.9	3.6
Gross Fixed Capital Investment	8.3	1.3	2.4	0.3	7.2	7.7
Exports, Goods and Services	-6.2	3.9	-0.2	0.1	3.9	4.8
Imports, Goods and Services	8.6	2.5	-2.0	1.2	5.5	7.2
Real GDP growth, at constant factor prices	4.4	6.3	5.5	1.5	5.2	5.7
Agriculture	1.6	6.0	3.6	3.7	3.9	4.2
Industry	3.9	5.5	4.6	1.1	3.3	4.7
Services	5.9	6.7	6.7	0.8	6.4	6.6
Inflation (Consumer Price Index)	8.0	4.7	5.2	5.7	6.0	6.3
Current Account Balance (% of GDP)	-7.2	-5.8	-5.7	-4.5	-4.8	-5.2
Net Foreign Direct Investment (% of GDP)	1.3	1.7	1.1	0.3	0.9	1.6
Fiscal Balance (% of GDP)	-8.2	-7.6	-7.9	-7.8	-6.8	-5.6
Debt (% of GDP)	55.0	60.8	62.7	68.0	71.9	74.4
Primary Balance (% of GDP)	-4.6	-2.9	-3.5	-3.6	-2.7	-1.4
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	35.4	34.5	34.0	33.8	33.2	32.4
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	65.7	65.2	65.0	64.9	64.6	64.1
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	86.2	85.9	85.8	85.7	85.5	85.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate. f = forecast.

(a) Calculations based on 2005-IHBS and 2015-IHBS. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(b) Projection using annualized elasticity (2005-2015) with pass-through = 1 based on private consumption per capita in constant LCU.