# COUNTRY PROFILE
## Quarterly update

July 2016

United Nations
Economic Commission for Africa

# KENYA

## Introduction

The main objective of this document is to provide an update to the 2016 Kenya Country Profile, with a particular focus on the recently released annual data for 2015.

## Recent developments — Key highlights

- The Kenyan economy continues to show resilience, despite persistent global economic uncertainty. Although its impact may not be felt immediately, "Brexit", the decision of British voters to leave the European Union following a national referendum on the issue held on 23 June 2016, may affect trade, aid and investment relations with both the United Kingdom and the European Union, particularly regarding the Economic Partnership Agreement.

- Despite Kenya's sustained focus on infrastructure development, there have been some setbacks, such as Uganda's decision to route its oil pipeline through the United Republic of Tanzania, rather than Kenya. Stronger economic ties with Ethiopia may be the result.

- Security risks remain relatively high, mainly due to the threat of terrorism, but also from the prospect of rising political tensions in the run-up to the 2017 elections.

## Economic performance

### Economic growth

Gross domestic product (GDP) grew by 5.6 per cent in 2015, compared to 5.3 per cent in 2014. The main drivers of growth were agriculture, construction and some service sectors, such as finance and insurance, real estate, and transport and storage. Abundant rainfall (due to the El Niño phenomenon) contributed to stronger growth in agriculture, while construction was the fastest growing sector at nearly 14 per cent – partly owing to the development of transport and energy infrastructure. The weight of agriculture in the economy continued to expand, from 29 per cent of gross value added in 2014 to 32 per cent in 2015. From a demand perspective, GDP growth was predominantly driven by private and government consumption – the latter grew by 15 per cent in 2015. GDP expanded by 5.9 per cent in the first quarter of 2016, compared to 5 per cent in the same quarter of 2015, thus providing early signs of improved economic performance in 2016.

### Budgetary policy

Preliminary results for the 2014/15 fiscal year suggest a relative stagnation in total revenue, while total government expenditure increased by about 3 percentage points – to 28.7 per cent of GDP. This led to a significant widening of the fiscal deficit, currently at about 9 per cent of GDP (on a commitment basis). Provisional estimates for 2015/16 envisage a relative increase in revenues and a reduction in total expenditure, mainly owing to a slowdown in development expenditures. The central Government's fiscal deficit is predicted to be just under 8 per cent of GDP in 2015/16.

### Inflation and monetary policy

In order to contain inflationary pressures and restrict the depreciation of the Kenyan shilling, the Central Bank of Kenya raised its reference interest rate to 11.5 per cent in July 2015. As a result, consumer price inflation eased from 6.9 per cent in 2014 to 6.6 per cent in 2015, while the value of the Kenyan shilling has stabilized against the US dollar since late 2015. However, the average commercial lending rate increased from 16 per cent in December 2014 to 17.5 per cent in December 2015, which may potentially affect consumption and investment levels in 2016. Monthly data reveals a steady downward trend in inflation, from 7.8 per cent in January 2016 to 5 per cent in May 2016.

### Current account

The current account deficit narrowed from 9.8 per cent of GDP in 2014 to 6.8 per cent in 2015. This was mainly due to an improved trade balance, with merchandise exports increasing by 7 per cent and imports declining marginally. The large increase in the international price of tea contributed to a stronger export performance in 2015, even in the face of lower export volumes. Horticulture, tea and coffee currently account for about 50 per cent of merchandise exports (excluding re-exports). The decline in merchandise imports was mainly due to the decline in international oil prices. Regarding trade in services, the surplus increased by 8 per cent in 2015. Quarterly data suggests that the merchandise trade balance improved in the first quarter of 2016 – owing to lower imports and an increase in the value of exports – which has had a positive impact on the current account.

The financial account surplus declined by almost 20 per cent in 2015 – to 498 billion shillings – mainly due to repayments of external loans. Direct investment net inflows grew by 16 per cent to 107 billion shillings in 2015. The 2014 hike in portfolio investment was mainly due to the one-off Eurobond sale. The overall balance of payments position worsened from a surplus of 128 billion shillings in 2014 to a deficit of 25 billion in 2015. As of December 2015, official foreign exchange reserves were equivalent to 4.8 months of import cover.

## Social development

### Education

Both primary and secondary net enrolment rates stagnated in 2015, at 88 per cent and 48 per cent, respectively. However, the primary completion rate increased from 79 per cent in 2014 to 83 per cent in 2015, while the primary-secondary transition rate improved by 2 percentage points to reach 82 per cent in 2015. Moreover, the pupil-teacher ratio in public primary schools improved from 43:1 in 2014 to 41:1 in 2015.

# Annex

## Economic performance [1]

### Macroeconomic performance

| Economic growth | Value | Year |
|---|---|---|
| GDP, current prices (millions of US$) | 63,398 | 2015 |
| Real GDP growth rate (%) | 5.6 | 2015 |
| Inflation rate (%) | 6.6 | 2015 |

### Fiscal policy

| (% of GDP) | Value | Year |
|---|---|---|
| Total revenue and grants | 19.9 | FY 2014/15 |
| Revenue | 18.1 | FY 2014/15 |
| Appropriation-in-aid | 1.3 | FY 2014/15 |
| Grants | 0.5 | FY 2014/15 |
| Expenditure and net lending | 28.7 | FY 2014/15 |
| Recurrent expenditure | 15.1 | FY 2014/15 |
| of which: wages and salaries | 5.2 | FY 2014/15 |
| of which: interest payments | 3.0 | FY 2014/15 |
| Development expenditure | 8.9 | FY 2014/15 |
| County transfers | 4.0 | FY 2014/15 |
| Other expenditure | 0.7 | FY 2014/15 |
| Fiscal balance (commitment basis) | -8.9 | FY 2014/15 |
| Fiscal balance (cash basis) | -8.3 | FY 2014/15 |

### Monetary policy

| (%) | Value | Year |
|---|---|---|
| Central Bank reference rate | 11.5 | (Dec) 2015 |
| Interbank rate | 7.3 | (Dec) 2015 |
| Lending interest rate | 17.5 | (Dec) 2015 |
| Deposit interest rate (average) | 7.9 | (Dec) 2015 |
| Spread | 9.5 | (Dec) 2015 |

### Current account

| (millions of US$) | Value | Year |
|---|---|---|
| Imports of goods and services | 17,731 | 2015 |
| Exports of goods and services | 10,479 | 2015 |
| Trade balance | -7,251 | 2015 |
| Current account | -4,325 | 2015 |

### Capital and financial accounts

| (millions of US$) | Value | Year |
|---|---|---|
| Direct investment: assets | 398 | 2015 |
| Direct investment: liabilities | 1,486 | 2015 |
| Portfolio investment | -157 | 2015 |
| Other investment | 4,139 | 2015 |
| Financial account | 5,070 | 2015 |
| Capital account | 257 | 2015 |
| Reserves (and related items) | -254 | 2015 |

## Social developments

### Education

| (%) | Value | Year |
|---|---|---|
| Net enrolment rate, primary education | 88 | 2015 |
| Net enrolment rate, secondary education | 48 | 2015 |

1 Data in Kenyan shillings were converted to United States dollars using the annual average exchange rate (98.18).

# References

Kenya National Bureau of Statistics (2016a). Economic Survey 2016. Nairobi.

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Kenya National Bureau of Statistics (2016c). Leading Economic Indicators: May 2016. Nairobi.

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