IMF Staff Concludes Mission to Kenya

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End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

A team from the International Monetary Fund (IMF), led by Mauro Mecagni, visited Kenya during October 22–November 9, 2014. The mission reached staff-level agreement on a program that could be supported by the IMF through a Stand-By Arrangement and Stand-By Credit Facility (SBA/SCF).

Mr. Mecagni released the following statement at the end of the mission:

"Kenya's economy remains robust, supported by strong credit growth and a dynamic investment environment. Inflation has declined in the last two months and remains within the government's target range. A gradual depreciation of the Kenyan shilling mostly reflects developments in international currency markets, and international reserves stand at 4.9 months of prospective import coverage, boosted by proceeds from the successful June 2014 sovereign bond issuance. Investment in power generation, in particular in geothermal energy, is already translating into lower electricity costs for firms and households. However, difficult security conditions are having a dampening effect on the tourism sector.

"The initiation of the Standard Gauge Railway (SGR) project is a major step for Kenya and for the region. It will boost integration across East Africa by reducing transport costs significantly, bringing down the cost of doing business and improving standards of living for the population, helping Kenya move closer to the medium-term goals outlined in its Vision 2030 plans. The SGR's initial construction work will contribute to higher real GDP growth, projected to rise to 6.9 in 2015 from 5.3 percent in 2014. Imports of equipment for the SGR project combined with continued investment in oil exploration are expected to keep the external current account deficit relatively high at around 8½ percent of GDP in 2015, albeit a slight decline from a projected 9 percent deficit in 2014 thanks to lower international oil prices.

"Fiscal policy will aim at preserving debt sustainability while providing room for the execution of the SGR project. To accommodate additional investment spending, the government is committed to containing the wage bill over the medium term. Maintaining current spending under control and redoubling tax collection efforts will also release additional resources to bolster national security, expand the social safety net, and reduce the fiscal deficit over the medium term in line with the East African Community convergence criteria for monetary union. Prudent fiscal policies will also contribute to an orderly consolidation of devolution. Meanwhile, monetary policy

Community convergence criteria for monetary union. Prudent fiscal policies will also contribute to an orderly consolidation of devolution. Meanwhile, monetary policy will continue to aim at maintaining price stability in the context of a further strengthening of the CBK's monetary framework.

"The mission and the Kenyan authorities reached staff level agreement on an economic program that could be supported by an SBA/SCF arrangement, which the authorities intend to treat as precautionary. This arrangement would serve an insurance purpose, providing Kenya with access to IMF resources in the event of exogenous shocks. The program would accommodate the SGR project and other initiatives launched by the government to remove hurdles to growth, while reducing vulnerabilities and preserving a sustainable debt position. The program builds on Kenya's ambitious reform agenda by supporting successful fiscal devolution while strengthening fiscal risk assessments; reinforcing the coordination of debt, cash and liquidity management functions between the Treasury and the central bank; strengthening central bank independence; and improving the quality of economic statistics.

"The staff level agreement is subject to review by the IMF's management and its Executive Board. Consideration by the Executive Board is tentatively scheduled for late January 2015.

"The mission met with Cabinet Secretary to the Treasury Henry Rotich, Principal Secretary to the Treasury Kamau Thugge, Central Bank of Kenya (CBK) Governor Njuguna Ndung'u, CBK Deputy Governor Haron Sirima, Chief of Staff and Head of Public Service Joseph Kinyua, members of the CBK Monetary Policy Committee, and other senior government officials.

"The mission team wishes to thank the authorities for their warm hospitality, the excellent collaboration, and the high-quality discussions".

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