

# Kenya Country Brief



December 2023



Transforming Africa's Trade

African Export-Import Bank  
Banque Africaine d'Import-Export



# Kenya

The Republic of Kenya is a country located in East Africa. It covers an area of about 580,367 square kilometers, making it the 23rd largest country on the continent and the 48th largest country in the world. Kenya shares borders with Ethiopia to the north, South Sudan to the northwest, Uganda to the west, Somalia to the east, and Tanzania to the south.

## 23rd

largest African  
country by area

## 580,367

square kilometers

## 7th

most populous  
African country





## INTRODUCTION

The Republic of Kenya is a country located in East Africa. It covers an area of about 580,367 square kilometers, making it the 23rd largest country on the continent and the 48th largest country in the world. Kenya shares borders with Ethiopia to the north, South Sudan to the northwest, Uganda to the west, Somalia to the east, and Tanzania to the south. With an estimated population of 55 million inhabitants in 2023, Kenya is the 7th most populous country in Africa and the 26th most populous country in the world. Kenya is a multi-ethnic country with more than 40 groups. Kikuyu is the largest ethnic group, and English and Kiswahili are the country's official languages. Nairobi is the country's capital and largest city.

The main drivers of the Kenyan economy are the agriculture and services sectors, with agriculture accounting for about 22 percent of GDP and services accounting for more than 55 percent of GDP. Despite the weight of the services sector, the agriculture sector is the main source of jobs, employing more than 40 percent of the total population and more than 70 percent of the workforce in the rural area. The agriculture sector is also the main source of the country's foreign exchange earnings.

In 2022, Kenya's output increased to about US\$113.4 billion, from about US\$109.7 billion in 2021, making it the 7th largest economy in Africa and the 65th largest economy in the world. The increase in output was driven mainly by the services sector, led by the financial services, tourism, and transport sub-sectors, which performed strongly during the year. This performance underscores the resilience of the economy amid numerous crises. Downside risks include high import bills arising from elevated global commodity prices, high inflationary pressures, and tight financial conditions. Alongside debt vulnerability, these risks could weigh on the country's growth outlook.

## POLITICAL ENVIRONMENT

The Republic of Kenya is governed under a presidential democratic regime in which the president is both head of state and head of government. The president is vested with executive power whereas the parliament exercises the legislative power. Kenya was ruled under a one-party regime until 1992, where a multi-party political system was introduced under the auspices of the Kenya African National Union (KANU) party, which ruled the country for 40 years. As of April 2012, Kenya's political landscape was made up of 24 parties mostly organised into coalitions. The Jubilee Party (JP), the Orange Democratic Movement (ODM), and the United Democratic Alliance (UDA) were the leading political parties, holding the majority of the seats in the Senate and the National Assembly.

The general elections held in August 2022 saw the victory of Mr. William Ruto of the UDA as president of the Republic of Kenya for a five-year term, after defeating historical opponent Raila Odinga of the ODM. Disagreement over the credibility of the election result, the high cost of living, and the government's tax policies were among the main sources of political tension, protests, and demonstrations led by the Azimio coalition headed by Mr. Odinga. However, ongoing talks between the president's Kwanza coalition and the opposition's Azimio coalition are paving the way to reshaping the political environment and sustaining political stability.

## ECONOMIC OVERVIEW

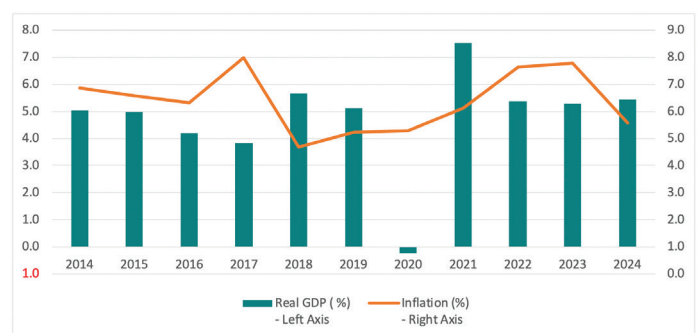
### Gross Domestic Product

Kenya remains one of the strongest and most resilient economies in Africa, with an average output growth of 4.8 percent between 2015 and 2019. Output contracted by just about 0.3 percent in 2020, at the height of the pandemic downturn, at a time of synchronised global contractions, while world output contracted by 3.2 percent.

After a strong recovery, with GDP growth of 7.5 percent in 2021, the Kenyan economy continued to demonstrate remarkable resilience. Growth returned to pre-COVID levels, with output expansion estimated at 5.4 percent in 2022—and projected to remain strong at about 5.5 percent over the short-to-medium term—mainly driven by increased investment, broad-based private sector growth, including recovery in agriculture, increasing diversification of sources of growth, and proactive measures implemented by the government to support businesses.

The growth outlook is also expected to be supported by a vibrant services sector (which contributes more than 50 percent to GDP), including tourism and hospitality, transport, education, and information and communication technology. It is reinforced by the government's development agenda geared toward inclusive growth.

Figure 1: GDP growth and inflation trend



Sources: Afreximbank Research, IMF World Economic Outlook (2023)

## Inflation

After a sharp decline from 8 percent in 2017 to 4.7 percent in 2018, the rate of inflation reversed, averaging about 5.8 percent during 2018–2022. Year-on-year inflation inched up to 7.6 percent in 2022, from 6.1 percent in 2021, reflecting global increase in prices, especially food and energy prices, on the back of supply chain disruptions occasioned by the COVID-19 pandemic and exacerbated by the ongoing Ukraine conflict. Food inflation, which is the largest component of the inflation basket, rose to 12.9 percent and reached a peak of 15.8 percent in October 2022, up from just about 8.5 percent in 2021. Energy inflation also ticked up by about 15 percent in 2022, up from about 11 percent in 2021, reflecting increased international oil prices. Inflation is projected to maintain its upward trajectory, increasing marginally to about 7.8 percent in 2023 due to still-high international oil prices, a scaling-down of fuel subsidies, and exchange rate depreciation. However, inflationary pressure is projected to ease, with the rate of inflation decelerating by about 5.6 percent in 2024. The downward trend is projected to be sustained, as improved weather conditions increase agriculture output and global oil prices ease, along with lower depreciation of the country's currency.

## Exchange Rate

The Kenyan Shilling (KSh) has been under pressure, driven largely by persistently high inflationary pressures, declining foreign exchange reserves, and a strong US dollar supported by US monetary tightening. As a result, the shilling weakened against the US dollar, depreciating by about 7 percent and trading at KSh117.9 to the US dollar in 2022, compared with KSh109.6 to the US dollar in 2021. The country's currency is expected to remain under pressure, with the pace of depreciation accelerating by about 18 percent in 2023 on the back of protracted challenges, in addition to the ongoing Israel-Gaza conflict which will further strengthen the US dollar as investors seek safe havens. Nonetheless, the pace of depreciation is projected to moderate in 2024, underpinned by a relaxation of US monetary tightening, support from multilateral financial institutions including the International Monetary Fund (IMF) and the World Bank, increased export receipts, and resilient remittances inflows. This will help maintain adequate cover and provide a buffer against short-term shocks in the foreign exchange market.

## Fiscal Balance

After steadily widening in recent years to 8.5 percent of GDP in 2021, from 7.9 percent of GDP in 2020 and 7.6 percent in 2019, the fiscal deficit improved, narrowing to about 6.5

percent of GDP in 2022. The deficit is projected to sustain the downward trend in the medium term, on the back of difficult reforms including expenditure cuts and corrective tax measures to raise tax revenues under the IMF support programs. The reforms are expected to help the government create fiscal space with a view to achieving a recurrent budget surplus, reducing debt vulnerability, and sustaining growth.

## OVERVIEW OF TRADE, RESERVES, AND THE FINANCIAL SECTOR

### Total Trade

Kenya's total trade amounted to US\$28.49 billion in 2022, representing a 7.52 percent increase over 2021. The country's total exports reached US\$7.14 billion in 2022, up from US\$6.73 billion in 2021, while its total imports reached US\$21.35 billion, up from US\$19.76 billion over the same period. This resulted in a trade deficit of US\$14.22 billion in 2022, from a deficit of US\$13.04 billion in 2021. The widening of the trade deficit arose largely from high import bills, driven by elevated oil prices arising from the spillover effects of the Ukraine conflict.

In 2022, Kenya's export destinations were dominated by Uganda, which accounted for about 12.36 percent of the total exports, followed by the United States (8.34 percent), the Netherlands (8.26 percent), Pakistan (7.18 percent), and the United Kingdom (6.13 percent). The country's main exports were coffee, tea, maté, and spices (23.43 percent), live trees and plants (9.39 percent), and mineral fuels and oils (6.10 percent). Kenya's main import sources were China (19.6 percent), India (10.8 percent), the United Arab Emirates (8.6 percent), Saudi Arabia (5.7 percent) and Malaysia (4.7 percent). The country's top imports were mineral fuels and oils (26.46 percent), nuclear reactors and mechanical appliances (6.73 percent), iron and steel (5.86 percent), and cereals (5.70 percent).

Figure 2: Kenya's total trade (US\$ million)



Sources: Afreximbank Research, IMF Direction of Trade Statistics.

## Intra-African Trade

Kenya's total intra-African trade was estimated at US\$5.18 billion in 2022, accounting for about 18.2 percent of the country's total trade and significantly higher than the regional average of 14 percent. Kenya's top export destinations were mostly its neighboring countries. Uganda alone accounted for about 33.86 percent of total exports, followed by Tanzania (16.79 percent), Rwanda (11.20 percent), the Democratic Republic of Congo (9.63 percent), and Somalia (5.15 percent). Kenya's top export products were coffee and tea (9.72 percent), animal fats (8.67 percent), iron and steel (6.68 percent), and salt and cement (5.21 percent).

Tanzania and South Africa emerged as Kenya's largest import partners on the continent. Imports from Tanzania accounted for 30.9 percent of total imports, and imports from South Africa accounted for 24.9 percent. Other major import partners were Uganda (17.72 percent), Eswatini (6.54 percent), and Zambia (3.63 percent). Cereals, mineral oils and fuels, iron and steel, and sugars were Kenya's main intra-African imports.

## Reserves

Kenya's stock of reserves, which increased to about US\$9.5 billion in 2021 from US\$8.3 billion in 2020, fell to US\$7.97 billion in 2022, on the back of high import bills as increased oil prices more than offset increased receipts from tea and services exports and migrant remittances. Currency depreciation and debt service payments in the context of rising inflation and interest rates also weighed on the country's reserve holdings. However, the reserve position is expected to improve, with the stock of reserves increasing to about US\$8.7 billion in 2023 and sustaining the upward trend, on the back of the World Bank's budget support, fiscal consolidation under the IMF support program, and increased tourist arrivals and inflows of remittances. This will enable the country to maintain an adequate level of reserves, which remains within the Central Bank's statutory requirement of at least four months of import cover, and well above the IMF threshold of three months of the import cover.

## Current Account Balance

Kenya's current account deficit narrowed by about 5.1 percent of GDP in 2022 from 5.2 percent of GDP in 2021, and it is projected to maintain the downward trajectory, narrowing further to 4.8 percent of GDP in 2023, supported by lower non-energy imports and exports resilience. However, an increase in the trade deficit, arising from moderate rise in export earnings and import spending will put pressure on the current account deficit, widening it by 5 percent of GDP

in 2024. Thereafter, the current account deficit is expected to trend downward, as lower oil prices and further expenditure cuts reduce the import bill, while stronger goods exports improve export receipts and remittances grow.

## Financial Sector

Kenya's financial sector is well-diversified. It is one of the largest on the continent and the largest in East Africa. Over the years, with its fast-growing fintech and financial services ecosystem, the sector has continuously played a significant role in the economy. The share of the financial sector in Kenya's GDP has been trending upward. From about 3.7 percent in 2009, it quickened to 9.2 percent in 2013, then to more than 10.1 percent in 2022.

Kenya's financial sector is dominated by the banking sub-sector, with 38 commercial banks, 1 mortgage finance company, and 14 deposit-taking microfinance banks operating in 1,475 branches across the country and accounting for 72 percent of the financial sector's total assets in 2022. Other major entities in the financial sector were pension funds (17 percent), insurance companies (10 percent) and microfinance companies (1 percent). A breakdown of the banking sector shows that the majority of banks (37) were privately owned and accounted for 99.5 percent of the sub-sector's total net assets, while only 2 were state-owned and accounted for just about 0.5 percent of the total net assets. Of the 37 privately owned banks, 17 were subsidiaries of foreign banks, accounting for 32.1 percent of net assets, and 20 were of domestic origin, accounting for 67.4 percent of net assets.

Under the supervision of the Central Bank of Kenya (CBK), the banking sector performed relatively well in terms of loans, assets, deposits, and liabilities, despite the confluence of shocks including the effects of the pandemic and the Ukraine conflict. The sector's total loans grew by 11.5 percent to Ksh3,630 billion (US\$29.6 billion) in December 2022 from Ksh3,255 billion (US\$29 billion) in December 2021. They were driven largely by reforms undertaken by the CBK to boost the sector, including the Credit Guarantee Scheme initiative launched in 2020 to support the financing needs of small and medium-sized enterprises.

Overall, the country's banking sector remained sound, well capitalised with strong liquidity buffers, and profitable, at end-December 2022. For instance, the sector's non-performing loan ratio improved (though remained elevated) to 13.9 percent in December 2022, from 14.1 the previous year. Additionally, the sector's minimum regulatory capital adequacy ratios were all above the benchmarks. The core capital-to-total

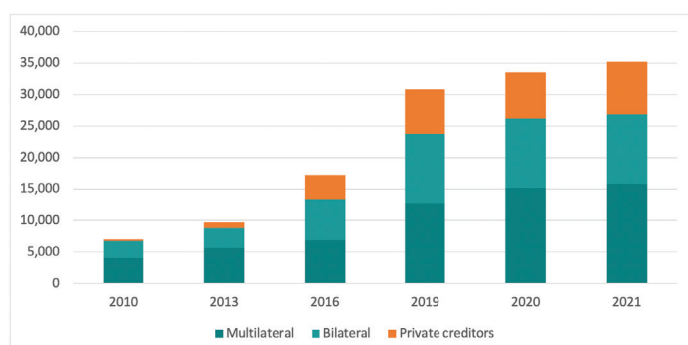
risk-weighted assets ratio, which stood at 16 percent, and that of the total capital-to total risk-weighted assets, which reached 18.9 percent, were all above the minimum thresholds of 10.5 percent and 14.5 percent, respectively. The sector also had strong liquidity in 2022, with a liquidity ratio of 50.8 percent, which remained well above the 20 percent minimum threshold. Furthermore, the sector performed well in relation to profitability, with the profit before tax indicator growing by 22 percent to Ksh240 billion (US\$8.12 billion) in 2022, up from Ksh197 billion (US\$6.79 billion) in 2021.

To sustain resilience and further promote the soundness and stability of the sector, the CBK recently undertook several regulatory reforms, including the CBK Amendment Act of 2021 on Digital Credit Providers, to ensure transparency, efficiency, and best practices in the digital credit lending space. It also took other enhanced supervision measures to reinvigorate the sector. Overall, while the financial sector is expected to remain sound and stable with adequate capital and liquidity buffers, downside risks, including tightening monetary policy, stubbornly high inflation, and high debt pressures, could weigh on the growth of the sector in the medium term.

### Debt Sustainability

In line with the global environment of increasing sovereign liabilities underpinned by the government's response to the COVID-19 pandemic, Kenya's total debt increased sharply by 8.8 percent to reach US\$72.5 billion by end-2021, with a further 2.2 percent increase to post a total debt stock of US\$74.1 billion in 2022. While high deficits driven by large infrastructure projects and COVID-19 response measures have been the main drivers of Kenya's debt accumulation, the Ukraine conflict further exacerbated the trend in debt. The government borrowed more than US\$12.4 billion comprising more than US\$7.3 billion Eurobonds, and US\$4.8 billion concessional debt, as well as an additional US\$2.34 billion financing package from the IMF, by the first half of 2022.

Figure 3: Evolution of Kenya's total public and publicly guarantees external debt composition, \$US millions



Sources: Afreximbank Research, International Debt Statistics.

### i. PV of external debt/GDP

The present value (PV) of external public debt in terms of GDP increased marginally to 27.8 percent in 2022, from 27.4 percent, and is projected to average around 30 percent between 2023 and 2025, but remains significantly below the prudent and sustainable threshold of 40 percent. The low ratio reflects the growth resilience of Kenya's economy, with output expansion expected to remain strong in the short term, supported by continued efforts to implement fiscal consolidation.

### ii. PV of Total Debt/GDP

The PV of public debt to GDP has been on the rise, reaching 63.1 percent in 2022, from 61.6 percent in 2021, and it is expected to average around 62 percent in the medium term. While at 62 percent the ratio remains above the 55 percent sustainability threshold, the declining trend is projected to be sustained, on account of fiscal consolidation and tax measures aimed at improving domestic resource mobilisation.

### iii. PV of External Debt/Exports

The PV of external debt to exports stood at 228.3 percent in 2022, down from 256.1 percent in 2021. The downward trajectory is projected to be sustained, with the ratio declining further to 220.4 percent in 2023 and quickening to 210.8 percent in 2024 and 195.6 percent in 2025, as the operationalisation of the African Continental Free Trade Area (AfCFTA) offers new markets for Kenya's exports within the continent, and efforts by the government to diversify away from traditional partners offer new export destinations (including South Korea) to Kenya outside the continent. Nonetheless, the ratio will remain well above the sustainable CPIA threshold of 180 percent, putting Kenya at substantial risk of debt distress.

### iv. External debt service/exports

Kenya's external debt service-to-exports ratio has been trending downward, reaching 21.2 percent in 2022 from 22.5 percent in 2021 and 25.7 percent at the height of the COVID-19 pandemic in 2020, reflecting exports recovery and government's strong commitment to fiscal consolidation. However, the ratio is projected to remain above the 15 percent sustainable threshold, increasing to 22 percent in 2023 and 31.1 percent before trending down, due to the need for more borrowing and the upcoming Eurobond maturity worth US\$2 billion.

An overall assessment of Kenya's debt based on the above-mentioned debt sustainability indicators suggests that Kenya's debt is at high risk of distress and could become



unsustainable if appropriate measures are not taken. Accordingly, the government has stepped up efforts with bold measures to safeguard the sustainability of the country's debt. These measures include government's comprehensive strategy to strengthen debt management and its commitment to robust fiscal consolidation including through spending cuts and broadening of the tax base to improve tax collection and government revenue, under IMF support programs. In addition, the government signed a US\$3 billion Country Programme facility with the African Export-Import Bank (Afreximbank) in May 2023, with a view to supporting critical sectors of the economy to spur growth. The programme is expected to improve the country's macroeconomic stability and step up reforms to sustain development and improve Kenya's debt management position.

### OPPORTUNITIES FOR BANK SUPPORT

Kenya's Fourth Medium-Term Plan (MTP 2023–2027) is part of a series of successive five-year medium-term plans designed to help implement the country's long-term development plan, dubbed Vision 2030. The fourth is a comprehensive plan that aims at fostering economic recovery and growth in key strategic sectors, creating jobs, promoting households' well-being, and contributing to Vision 2030. It rests on several key pillars, including an economic pillar, to attain its overarching objectives of transforming Kenya into a newly industrializing, middle-income country, providing high quality of life to its citizens in a clean and secure environment. Kenya's long-term development strategy aligns with the Bank's current Strategic Plan, which is underpinned by a number of strategic pillars, including promoting intra-African trade and AfCFTA implementation, industrialisation, and export development. The Bank has been a major player in the promotion of economic development in Kenya, especially with the recent approval by the Bank of a US\$3 billion Country

Programme facility in favor of Kenya. This alignment provides the opportunity to the institution to further enhance its development relevance by accelerating growth in key priority sectors.

Opportunities for development financing and investment in Kenya are significant, including in the financial services industry, which is the largest in East Africa, and the manufacturing and agro-processing industries. In the manufacturing sector, Afreximbank could scale up the country's light manufacturing capacity to deepen the development of local and regional value chains and expand employment opportunities. The financing for extension, establishment, and/or rehabilitation of physical and economic infrastructure, including industrial parks and special economic zones, will be critical for boosting productivity and job creation and accelerating the process of industrialisation. The Bank's financing could also be timely and significant in the hydrocarbons sector, particularly the oil and gas sub-sectors, as the government aims to prioritise investment in infrastructure across the whole oil and gas value chain, from upstream to downstream infrastructure, to accelerate the development of the sub-sector and make the country a regional hub for oil and gas.

At the same time, the government's commitment to prioritise investment in other key infrastructure offers tremendous opportunities to the Bank. For instance, the Fourth MTP (2023–2027) seeks investment for the rehabilitation and expansion of national and county roads; modernisation and transformation of the Jomo Kenyatta International Airport into an aviation hub; expansion of other airports, notably the Moi International Airport in Mombasa and the Kisumu International Airport; and expansion and modernisation of sea and inland ports and corridors, to facilitate seamless connectivity and boost trade between Kenya and other countries in the region.

### Appendix: Kenya Selected Macroeconomic and Financial Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022(f)	2023 (f)	2024 (f)
Real GDP, %	5.0	5.0	4.2	3.8	5.7	5.1	-0.3	7.5	5.4	5.3	5.4
Inflation, annual average, %	6.9	6.6	6.3	8.0	4.7	5.2	5.3	6.1	7.6	7.8	5.6
Exports of goods and services, % y/y	2.5	-9.2	-3.1	-0.5	6.0	0.0	-7.3	10.8	7.5	4.9	6.7
Current account, % of GDP	-9.34	-6.31	-5.40	-7.00	-5.41	-5.24	-4.76	-5.21	-5.1	-4.8	-5.0
Total reserves, US\$ millions	7,874	7,514	7,553	7,325	8,164	9,115	8,296	9,490	7,968	8,743	9,087
Gross reserves, months of imports	4.37	4.86	5.24	4.23	4.50	4.92	5.10	4.80	3.919	4.2	4.2

Sources: Afreximbank Research, World Bank, IMF, EIU.



#### **Headquarters**

72B El-Maahad El-Eshteraky Street  
Roxy, Heliopolis, Cairo 11341, Egypt  
info@afreximbank.com  
T +(202) 2456 4100/1/2/3/4

#### **Abidjan Branch**

3ème Etage, Immeuble CRRAE-UMOA,  
Angle Boulevard Botreau Roussel –  
Rue Privée CRRAE-UMOA Abidjan,  
Côte d'Ivoire  
abidjan@afreximbank.com  
T +(225) 2030 7300

#### **Caribbean Office**

African Export-Import Bank  
Banque Africaine d'Import-Export  
Trident Insurance Financial center  
Hastings, Christ Church,  
Highway 7, Bridgetown,  
Barbados BB5156  
T +(246) 833 4636

#### **Abuja Branch**

No. 2 Gnassingbe Eyadema Street  
Off Yakubu Gowon Crescent  
Asokoro, Abuja, Nigeria PMB 601  
Garki, Abuja, Nigeria  
abuja@afreximbank.com  
T +(234) 9 460 3160

#### **Harare Branch**

Eastgate Building, 3rd Floor  
(North Wing), Sam Nujoma Street  
Harare, Zimbabwe P.O. Box CY 1600  
Causeway, Harare, Zimbabwe  
harare@afreximbank.com  
T +(263) 4 700 904 / 941

#### **Kampala Branch**

Rwenzori Towers, 3rd Floor, Wing A,  
Plot 6 Nakasero P.O. Box 28412  
Kampala, Uganda  
kampala@afreximbank.com  
T +(256) 417 892 700  
+(256) 312 423 700

#### **Yaoundé Branch**

National Social Insurance  
Fund (NSIF) Headquarters Building,  
Town Hall, Independence Square  
P.O. Box 405, Yaoundé, Cameroon  
yaoundebranch@afreximbank.com

**afreximbank.com**

Copyright © Afreximbank 2023