KENYA

Table 1	2021
Population, million	55.0
GDP, current US$ billion	110.3
GDP per capita, current US$	2005.8
International poverty rate ($1.9)[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]	66.7
Total GHG Emissions (mtCO2e)	77.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ WDI for School enrollment (2016); Life expectancy (2019).

Kenya's economy was severely disrupted by the COVID-19 shock but it has staged a strong recovery, and the poverty rate is projected to fall below its pre-pandemic level in 2022. However, prolonged drought in the north-east has caused severe hardship in affected areas. Progress on fiscal consolidation will be essential to achieve a durable, private sector-led recovery, and to restore space for pro-poor spending and investment in human capital.

Key conditions and challenges

Kenya was making strong economic progress prior to the COVID-19 pandemic, with real GDP growing at an annual average rate of 5 percent and major achievements in human development (the highest Human Capital Index score in continental sub-Saharan Africa); in energy access and sustainability (access to electricity almost doubled to 75 percent of households in 2018, based on a nearly 90 percent green energy mix); and in poverty reduction (the share of the population living below the $1.90 a day poverty line fell from 45.2 percent in 2009 to 34.4 percent in 2019). Kenya aspires to become an upper middle-income country by 2030, which will require a shift away from the economy's recent reliance on debt-financed public investment and towards more private investment to sustainably generate jobs and income growth.

To support structural transformation towards a more inclusive and resilient private sector-led economy, it is critical to reinforce fiscal consolidation, since fiscal space has eroded and debt risks have mounted. Measures are also needed to strengthen productivity and private investment, by addressing economic distortions (including those which arise from an uneven playing field between the private sector and a large and inefficient SOE sector), improving the regulatory and business environment (including by reducing corruption and excessive red tape), and enhancing access to finance.

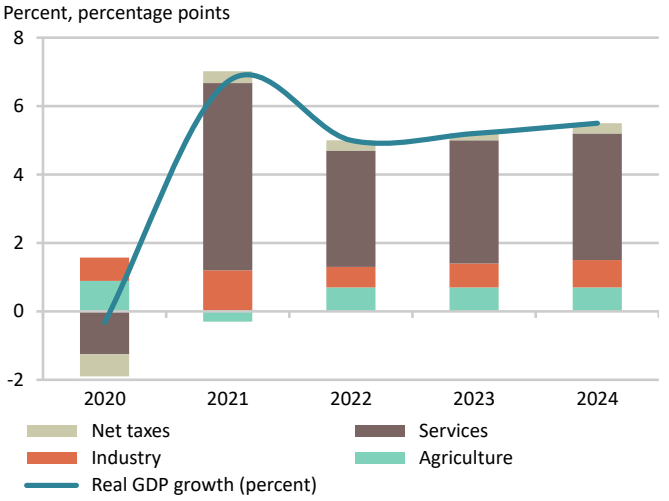
Kenya's economy relies on tourism and rainfed agriculture, and is vulnerable to climate change and extreme weather events such as the severe drought currently affecting the north-east of the country. Over the past decade, climate-related annual losses have been 3-5 percent of GDP, despite Kenya's negligible contribution to global GHG emissions. Climate-related priorities include phasing out the remaining fossil fuel power supply, increasing tree-cover, adopting climate-smart agriculture, and making the transportation and waste management systems more efficient and sustainable.

Recent developments

Whilst the pandemic stalled growth in 2020, the economy has recovered, and output is well above pre-pandemic levels. The economy grew by an estimated 6.7 percent in 2021, supported by a strong recovery of the services sector (Figure 1), particularly education, and growth in manufacturing and construction. Agricultural output, however, contracted by 1.5 percent in 2021, due to below-average rains. Disruption caused by the omicron variant of COVID-19 led to some moderation of economic activity in the fourth quarter of 2021.

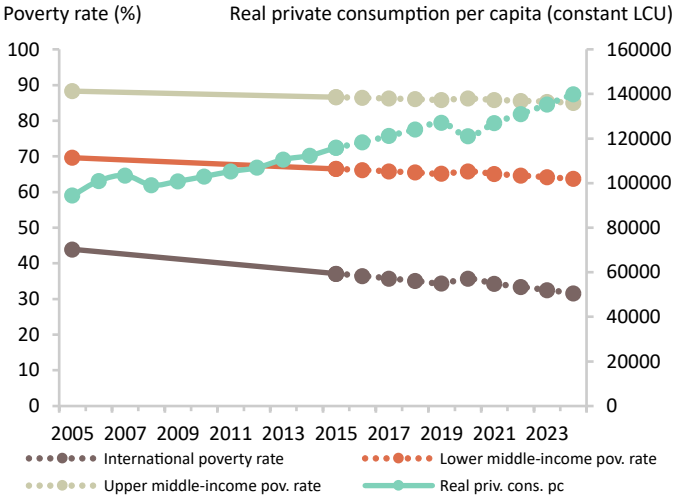
Monetary policy remained accommodative. Inflation pressures remained contained overall but the prices of some staple

FIGURE 1 **Kenya** / Real GDP growth and sectoral contributions to real GDP growth



Sources: Kenya National Bureau of Statistics and World Bank.

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



Source: World Bank. Notes: see Table 2.

products have risen significantly, affected by global supply chain challenges and below-average rains. The below-average rains have also resulted in deteriorating food security, especially in the north and east of Kenya which has been affected by a severe drought (USAID's Famine Early Warning Systems Network). The global fuel and food price shocks caused by Russia's invasion of Ukraine will increase import costs and prices, including of Kenya's significant net fuel and wheat imports, though the duration and magnitude of the price effects are highly uncertain.

The fiscal outturn in the first half (H1) of FY2021/22 improved, driven largely by the economic recovery, a strong rebound in revenues, and new tax policy and administration measures implemented under the government's medium-term fiscal consolidation program. Total expenditures have remained broadly steady at 10.8 percent of GDP in H1, with an increase in recurrent spending being offset by reduced development spending and below-target transfers to county governments. As a result, the fiscal deficit in H1 FY2021/22 decreased to 2.5 percent of GDP from 3.2 percent a year earlier.

Outlook

The course of the pandemic remains key to the outlook but increasing COVID-19 vaccinations will help to mitigate the risks. The government targets to vaccinate all adults by end-2022 and with the improvement in vaccine supply, the proportion of adults fully vaccinated increased from 15.3 percent in December 2021 to 27.8 percent in February 2022.

With GDP growth projected to average 5.2 percent over 2022–24, growth in real per capita incomes will help reverse the rising poverty rates caused by the pandemic. Poverty is expected to fall to 33.4 percent in 2022, below the pre-crisis level of 34.4 percent (2019). The baseline projections assume that normal rains support good agricultural harvests to drive food processing, sustain export growth, help anchor inflation expectations, and support households' consumption.

Progress on fiscal consolidation will bolster confidence and resources for private sector investment. The fiscal deficit is expected to narrow to 4.4 percent of GDP by FY2023/24, through a mix of expenditure restraint and revenue measures, including further rationalization of tax expenditures and introduction of a digital tax. Public debt is expected to decline as a share of GDP, benefiting from economic growth, fiscal consolidation and reduced borrowing costs due to increases in concessional debt in the financing mix. Lower domestic borrowing by government will create more room for banks to finance private sector investment.

Domestic risks facing the outlook stem from election-related disruptions and adverse weather conditions (currently affecting north-eastern Kenya). External uncertainty will stem from re-intensification of the pandemic, and the global price and trade shocks emanating from the Russia-Ukraine conflict with potentially adverse impacts on inflation, the current account balance, and the fiscal deficit (depending on extent to which global oil price increases are passed on to retail fuel consumers).

TABLE 2 **Kenya** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.0	-0.3	6.7	5.0	5.2	5.5
Private Consumption	4.9	-2.7	7.3	5.5	5.6	5.8
Government Consumption	7.0	4.3	4.2	4.9	3.6	3.5
Gross Fixed Capital Investment	3.8	3.4	6.4	4.1	6.7	7.6
Exports, Goods and Services	-3.2	-8.2	8.0	6.8	7.1	7.4
Imports, Goods and Services	1.8	-8.5	7.5	7.0	8.0	8.3
Real GDP growth, at constant factor prices	5.2	0.3	6.7	5.0	5.2	5.5
Agriculture	2.6	4.8	-1.5	3.6	3.8	4.2
Industry	3.4	4.0	6.6	3.5	4.0	4.3
Services	6.7	-2.2	9.6	5.9	6.0	6.2
Inflation (Consumer Price Index)	5.2	5.3	6.4	6.0	5.5	5.0
Current Account Balance (% of GDP)	-5.3	-4.6	-5.5	-6.0	-5.5	-5.0
Net Foreign Direct Investment (% of GDP)	0.9	0.5	0.2	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-7.4	-7.9	-8.2	-7.5	-5.5	-4.3
Debt (% of GDP)	59.5	65.8	68.2	68.0	66.8	63.9
Primary Balance (% of GDP)	-3.2	-3.9	-3.7	-2.8	-0.6	0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	34.4	35.7	34.3	33.4	32.5	31.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.1	65.8	65.1	64.7	64.2	63.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.9	86.2	85.8	85.6	85.3	85.0
GHG emissions growth (mtCO2e)	3.8	2.2	2.2	2.1	2.5	2.4
Energy related GHG emissions (% of total)	41.2	39.8	42.1	43.0	44.4	45.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2005-IHBS and 2015-IHBS.Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2005-2015) with pass-through = 1 based on private consumption per capita in constant LCU.