KENYA

Table 1	2021
Population, million	55.0
GDP, current US$ billion	110.6
GDP per capita, current US$	2011.7
International poverty rate ($2.15)[a]	29.4
Lower middle-income poverty rate ($3.65)[a]	59.6
Upper middle-income poverty rate ($6.85)[a]	85.7
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	67.0
Total GHG emissions (mtCO2e)	85.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent official value (2015), 2017 PPPs.
b/ WDI for School enrollment (2016); Life expectancy (2020).

Kenya's growth is projected to moderate to 5.5 percent in 2022 due to global supply constraints following the war in Ukraine and poor agricultural performance. The poverty rate is projected to return to its pre-pandemic trend, however, the prolonged drought in the north-east and increase in cost of living has caused hardship in affected areas. Policies including climate-smart agriculture are key to reduce vulnerability to climate change and increase productivity.

Key conditions and challenges

Kenya's pre-pandemic growth was robust, averaging 4.8 percent (2015 – 2019) and has staged a strong recovery from the pandemic. Per capita real GDP increased by about one-third in the decade prior to the pandemic, contributing to the reduction in poverty (using $2.15 a day poverty line) from 36.7 percent in 2005 to 26.5 percent in 2019 (Figure 2). Although, vast differences across counties persist, the gap between the richest and the poorest populations remains high. Further, the economy has not been generating enough good jobs, with only about 30 percent of the workforce in non-agricultural wage jobs. In addition, Kenya is likely to see its largest ever youth cohorts joining the workforce over the next decade, adding about one million new workers per year. This could generate a demographic dividend for Kenya and boost living standards, but only if there are enough high-quality jobs and earning opportunities. A narrow export base and weak regulatory and business conditions have hindered trade and investment growth. Kenya's economy relies on rainfed agriculture and is vulnerable to climate change and extreme weather events.

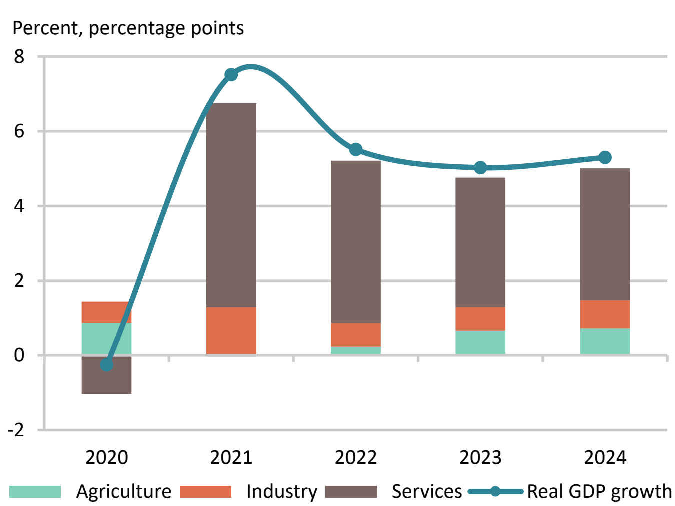
Meeting Kenya's jobs and growth challenge requires a shift away from the economy's recent reliance on debt-financed public investment and towards more private investment to sustainably generate jobs and income growth. This structural transformation would require eliminating economic distortions (including those which arise from an uneven playing field between the private sector and a large and inefficient SOE sector), strengthening regulatory and business environment (including by tackling corruption and excessive red tape), and improving access to finance (including by reducing government's domestic borrowing requirements). Adopting climate-smart agriculture is key to building resilience to climate change vulnerabilities. Further, ensuring increased access to better quality and more productive jobs, alongside job creation, will also help prevent potential increases in inequality.

Recent developments

Kenya's strong rebound from the pandemic in 2021 continued in Q1-2022, with real GDP growing by 7.5 percent in 2021 (Figure 1) and 6.8 percent in Q1-2022, driven by broad-based increases in services and industry. This was supported by a pickup in private sector credit, lower COVID-19 infections, high commodity prices, a recovery in tourism, and steady public investment. Agricultural output, however, contracted due to inadequate rains. Economic activity has weakened since Q2-2022 due to adverse impacts of the war in Ukraine, continued drought conditions, and a drop in business confidence.

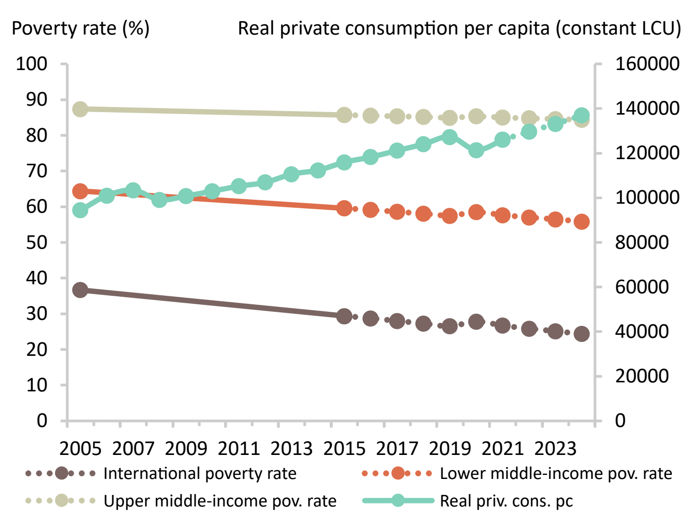
Shocks from global commodity markets and the regional drought pushed up domestic prices in 2022, leading to tightening of monetary policy. Inflation rose to

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



Sources: World Bank and Kenya National Bureau of Statistics.

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



Source: World Bank. Notes: see Table 2.

8.5 percent in August 2022, the highest since June 2017 and above the CBK upper bound target of 7.5 percent, even as price increases were partially muted by government subsidies on fuel, electricity and maize. To contain inflation, CBK raised the policy rate by 50 basis points to 7.5 percent in May 2022. High frequency monitoring of households shows a rise in food insecurity, most severely in rural areas, and over half of households reduced their food consumption in June 2022.

Further, most households reported an increase in prices of essential food items and over half of rural households reported being unable to access a core staple food such as beans or maize.

The government reduced the budget deficit in FY22 through revenue measures and expenditure moderation. Revenue increased to 17.4 percent of GDP in FY22 from 15.6 percent in FY21, reflecting a reduction of tax expenditures through harmonization of exemptions, and improvements in tax administration. While fiscal pressures increased from drought response and fuel subsidy, government reduced development spending by rationalizing the public investment program, containing the FY22 deficit at 6.2 percent of GDP, below its target of 8.2 percent.

Outlook

Real GDP is projected to grow by 5.2 percent on average in 2023–24, above the pre-pandemic average of 4.8 percent. The baseline assumes continued commitment to the multi-year fiscal consolidation by the incoming government and a return to favorable weather. Inflationary pressures are expected to remain elevated in H2-2022 due to ongoing domestic drought conditions, depreciation of the Kenya shilling, and second-round effects of higher fuel and electricity prices but will decline in 2023 partly due to adequate rains boosting agricultural performance.

Real per capita incomes are expected to grow, and the decline in poverty is expected to resume its pre-pandemic trend, declining by under a percentage point each year. The $2.15 poverty rate is expected to fall from 26.7 percent in 2021 to 25.8 percent in 2022, below its pre-crisis level of 26.5 percent (2019). However, rural areas may experience a decline in welfare, should the drought persist.

The government expects to reduce the fiscal deficit to 4.4 percent of GDP in FY23/24, mainly through higher revenue collection. A smooth government transition and the planned fiscal consolidation are expected to boost investor confidence and reduce government's domestic borrowing needs, allowing banks to increase lending for private sector investment. Progress on fiscal consolidation will be essential to achieve a durable, private sector-led recovery and to restore fiscal space for pro-poor spending and investment in human capital. Phasing out the untargeted fuel subsidy will create fiscal space for productive public spending.

There remain significant downside risks. Fiscal slippages including due to fertilizer and fuel subsidies could undermine medium-term fiscal consolidation and crowd out private sector credit. Unexpectedly prolonged recession in Europe could undercut ongoing recovery in exports and tourism. On the upside, a cooling of geopolitical tensions and stronger economic growth in China would boost global growth prospects and have positive spillovers for Kenya.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.2	-0.3	7.5	5.5	5.0	5.3
Private Consumption	5.0	-2.5	6.2	5.2	5.0	5.1
Government Consumption	5.6	3.0	5.7	6.6	5.2	5.0
Gross Fixed Capital Investment	4.5	2.5	10.9	7.0	7.5	8.1
Exports, Goods and Services	-3.2	-8.8	12.9	6.2	7.4	7.8
Imports, Goods and Services	1.8	-9.2	18.9	6.8	8.3	8.3
Real GDP growth, at constant factor prices	5.4	0.4	7.1	5.5	5.0	5.3
Agriculture	2.7	4.6	-0.2	1.3	3.8	4.2
Industry	4.0	3.3	7.2	3.5	3.6	4.3
Services	6.7	-1.8	9.5	7.4	5.8	5.9
Inflation (Consumer Price Index)	5.2	5.3	6.1	7.3	6.4	5.5
Current Account Balance (% of GDP)	-5.2	-4.8	-5.5	-6.0	-5.5	-5.0
Net Foreign Direct Investment Inflow (% of GDP)	0.9	0.5	0.2	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-7.5	-7.8	-8.2	-7.2	-5.2	-4.2
Debt (% of GDP)	59.6	66.0	67.9	67.8	66.2	63.5
Primary Balance (% of GDP)	-3.3	-3.9	-3.5	-2.3	-0.3	0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	26.5	27.8	26.7	25.9	25.1	24.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	57.5	58.5	57.6	57.0	56.4	55.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.0	85.3	85.0	84.8	84.6	84.4
GHG emissions growth (mtCO2e)	20.2	8.7	6.9	3.4	3.3	4.0
Energy related GHG emissions (% of total)	33.2	31.6	31.8	31.9	32.1	32.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
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.