KENYA

Table 1	2023
Population, million	55.1
GDP, current US$ billion	107.5
GDP per capita, current US$	1950.1
International poverty rate ($2.15)[a]	36.1
Lower middle-income poverty rate ($3.65)[a]	70.1
Upper middle-income poverty rate ($6.85)[a]	91.3
Gini index[a]	38.7
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	61.4
Total GHG emissions (mtCO2e)	82.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Kenya's growth rebounded after two consecutive years of droughts, as the poverty rate continued its declining trend. The Government of Kenya is taking bold measures to strengthen its macroeconomic policy framework. Fiscal consolidation remains a top priority, which in combination with a tighter monetary policy and improved global credit outlook made the country regain access to international financial markets. The outlook remains positive in the medium term, although the failure to achieve fiscal consolidation targets could exacerbate Kenya's debt vulnerabilities.

Key conditions and challenges

Kenya's GDP growth accelerated in 2023 after two consecutive years of droughts. Notwithstanding the cyclical rebound, long-term development challenges remain. Years of public-sector led growth and debt accumulation brought macroeconomic imbalances and did not create enough quality jobs that can sustain higher wages and accelerate poverty reduction. Compounded with high trade costs, these imbalances have generated a sluggish tradable sector in the economy. During 2023, uncertainty over future external financing were added to regular low exports and FDI, creating pressures on the foreign currency market. Climate shocks are increasing in frequency and intensity, threatening the livelihoods of many Kenyans, especially in dry and arid regions.

Kenya's economic growth has not been sufficiently inclusive, with the connection between growth and poverty reduction weakening. The poor have fewer household members working and are more likely to be engaged in subsistence agriculture and low-productivity services sub-sectors for employment. Strategies to enhance inclusive growth should focus on promoting productive employment and strengthening resilience to adverse weather shocks.

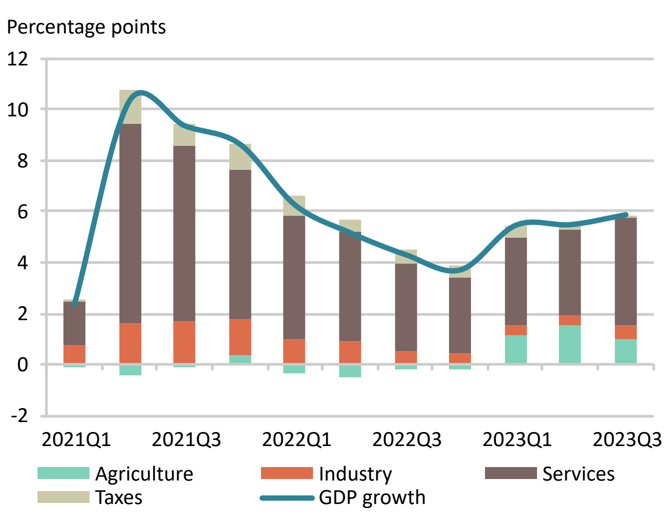
The government has taken steps to reinforce its macroeconomic policy framework. A tighter monetary policy continued fiscal consolidation, and the return to global capital markets through the issuance of a Eurobond in February 2024 helped to improve market confidence and foreign currency reserves. But there is scope to do more. Despite strengthened tax administrative measures, tax collection is characterized by low compliance levels, while expenditure inefficiencies and fiscal slippages are common. FDI is still restricted by complex entry and licensing procedures which limit international integration, and the economy is losing competitiveness in major exporting markets. Recent measures to strengthen market regulations and reduce the footprint of the State in the economy are positive, although there is space to enable a greater expansion of the private sector to raise productivity and create better jobs.

Recent developments

Kenya's real GDP expanded by 5.4 percent in 2023. The agricultural sector experienced a stronger than expected rebound after two years of drought. The onset of the rains led to improved crop yields and livestock health, which supported poverty rates to resume their downward trajectory. The $2.15 international poverty rate is projected to have declined from 35.8 percent in 2022 to 35,1 percent in 2023.

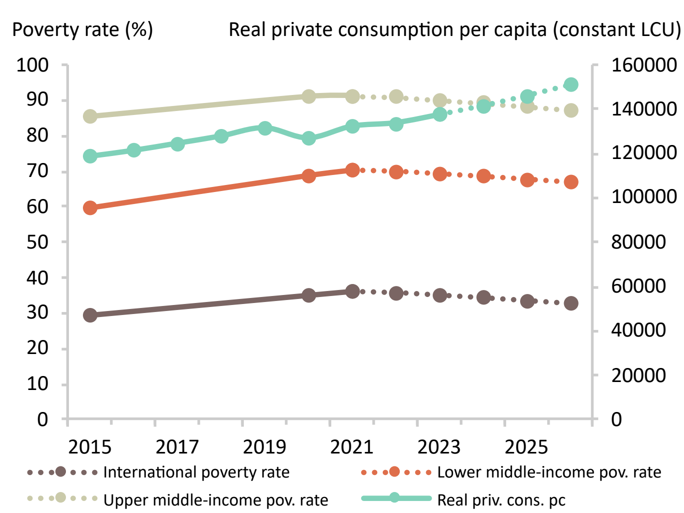
Moreover, industry and services continued to show resilience despite surging production costs, increased cost of credit, and a depreciating shilling. The depreciated currency depressed imported oil products, machinery, and transport

FIGURE 1 Kenya / Annualized quarterly real GDP growth and contributions to annualized real quarterly 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.

equipment but did not result in higher exports. As imports fell faster than exports and remittance flows held up, the current account deficit narrowed to 3.9 percent of GDP in 2023. FX reserves stood at US$ 7.1 billion or 3.7 months of import by January 2024, improving from December 2023 but still below the Central Bank of Kenya's (CBK) statutory minimum of 4.0 months of import cover.

Inflation fell to 6.9 percent by January 2024, within the CBK's target range of 5±2.5 percent, as falling commodity prices and tight monetary policy offset exchange-rate passthrough. During 2023, the CBK increased its policy rate by a total of 375 basis points, including a 200-basis-point hike in December, with another increase of 50bps, to 13 percent, in February 2024.

Fiscal consolidation continues as the government is expanding the tax base and rationalizing non-priority spending. However, revenue collection is lagging. Tax policy and tax administration measures were submitted to parliament by mid-December 2023 to ensure meeting end-of-year targets. As a share of GDP, public debt rose to 73.2 percent in 2023 from 70.6 percent in 2022.

Outlook

Kenya's outlook remains positive in the medium term, with real GDP projected to grow by 5.2 percent on average in 2024-2026. Persistent structural challenges notwithstanding, a stronger macroeconomic framework and the regaining of access to international financial markets will spur investor confidence and private investment, supporting capital inflows, and freeing more credit to the private sector through reduced domestic government borrowing. As reforms materialize, exports are projected to increase as Kenya implements trade agreements signed under the EU-EPA, AfCFTA, and potential other trade agreements. FDI, tourism, and remittance inflows will support external financing; the current account deficit is expected to remain within 3.9 and 4.1 percent of GDP. A more stable currency, moderating global and local inflation pressures, and, eventually, a more accommodative monetary policy will accelerate credit growth.

Ongoing fiscal consolidation is expected to reduce the fiscal deficit, which is projected to decline to -4.1 percent of GDP in 2024, targeting a primary surplus of 1.2 percent.

Real per capita incomes are expected to grow, and the poverty incidence is expected to resume its pre-pandemic downward trend, declining by nearly a percentage point each year toward pre-pandemic levels. The US$2.15 poverty rate is expected to fall from 35.1 percent in 2023 to 34.4 percent in 2024.

The outlook is subject to elevated uncertainty. The failure to achieve fiscal consolidation targets could exacerbate Kenya's debt vulnerabilities, especially due to still high-debt service repayments. Climate hazards could resume inflationary pressures and food insecurity, affecting growth. Lower than anticipated growth of international partners could undercut ongoing recovery in tourism, exports, and remittances. Elevated commodity prices would further tighten financial condition, weaken external balances, and impact inflation. The upside risks are linked to faster than expected normalization in global financing conditions and lower international fuel and food prices.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	7.6	4.8	5.4	5.0	5.3	5.3
Private consumption	6.2	3.1	5.0	4.9	5.3	5.4
Government consumption	6.0	7.4	5.7	1.6	0.8	1.1
Gross fixed capital investment	10.8	-1.1	0.1	5.3	7.8	7.8
Exports, goods and services	15.3	10.7	-6.8	8.7	9.6	9.9
Imports, goods and services	22.2	4.5	-7.8	3.0	5.5	6.4
Real GDP growth, at constant factor prices	7.1	4.5	5.4	5.0	5.3	5.3
Agriculture	-0.4	-1.6	6.1	4.1	4.4	4.5
Industry	7.5	3.9	2.2	4.0	4.1	4.3
Services	9.6	6.7	6.2	5.6	5.9	5.9
Inflation (consumer price index)	6.1	7.6	7.7	7.0	5.0	5.0
Current account balance (% of GDP)	-5.2	-5.1	-3.9	-3.9	-4.0	-4.1
Net foreign direct investment inflow (% of GDP)	0.0	0.3	0.4	0.6	0.7	0.8
Fiscal balance (% of GDP)	-7.3	-5.9	-5.2	-4.1	-3.3	-3.2
Revenues (% of GDP)	16.8	17.1	17.8	19.1	19.3	19.4
Debt (% of GDP)	68.1	70.6	73.2	71.8	69.0	66.6
Primary balance (% of GDP)	-2.5	-0.8	0.0	1.2	1.7	1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	36.1	35.8	35.1	34.4	33.6	32.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	70.1	69.8	69.2	68.5	67.8	67.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.3	90.9	90.1	89.2	88.2	87.2
GHG emissions growth (mtCO2e)	3.5	4.6	5.0	5.9	6.5	6.4
Energy related GHG emissions (% of total)	26.5	26.6	26.4	26.1	25.8	26.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2013-, 2018-, and 2021-KCHS. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on private consumption per capita in constant LCU.