

Strong growth and manageable twin deficits



General Information

GDP	USD63.4bn (World ranking 71, World Bank 2015)
Population	46.05mn (World ranking 30, World Bank 2015)
Form of state	Republic
Head of government	Uhuru Kenyatta
Next elections	2018, presidential and legislative



Strengths

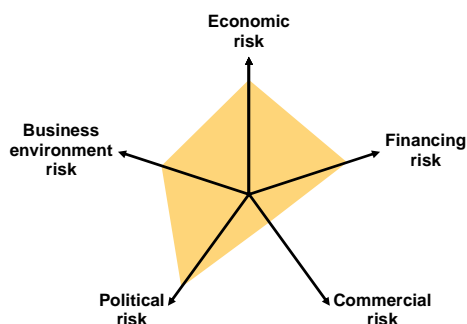
- Large domestic market (population 46mn)
- Member of the East African Community regional trading bloc, whose expansion offers good business opportunities.
- Vibrant horticultural and tourism sectors, although the latter is volatile, subject to domestic political stability and regional security concerns.
- Regional energy sector has significant potential including offshore gas fields. Exploitable reserves inside the country offer direct benefits, while inputs through Kenyan ports are also a plus.
- Strategic importance: regional economic hub.
- Strong improvement of doing business index.

Weaknesses

- Poor record in terms of political party and individual rivalries and ethnic, tribal and religious divides, which spilled over into violence in 2008. Despite a relatively successful election process in March 2013, these fault lines remain in place.
- Regional uncertainties (including Somalia, piracy and terrorist activity).
- Classified as a lower-middle income economy by the World Bank, with associated need to maintain aid and other external assistance flows.
- Chequered relationship with the IFIs and wider donor community, partly reflecting perceptions of corruption.
- Twin deficits of fiscal and current accounts.

Country Rating

C2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Uganda	11% 1	30% China
United States	8% 2	15% India
United Republic of Tanzania	8% 3	6% United Arab Emirates
Netherlands	7% 4	5% United States
United Kingdom	6% 5	5% Japan

By product (% of total)

Exports	Rank	Imports
Coffee, tea, cocoa, spices, and manufactures thereof	24% 1	16% Petroleum, petroleum products and related materials
Crude animal and vegetable materials, n.e.s.	11% 2	8% Road vehicles
Vegetables and fruits	8% 3	5% Textile yarn and related products
Articles of apparel & clothing accessories	6% 4	5% Telecommunication and sound recording apparatus
Petroleum, petroleum products and related materials	4% 5	4% Iron and steel

Source: UNCTAD 2015

Economic Overview

A Positive General Overview

Kenya benefits from a virtuous circle. Real GDP growth in 2016 was +6%, continuing the high annual growth rates recorded after the political/social crisis years of 2008 (+0.2%) and 2009 (+3.3%). EH forecasts growth to improve further to +6.5% in 2017 and +7% in 2017, boosted by ongoing reforms. Such rates compare favourably with a long-term (ten years) annual average of +5.4%.

This trajectory is supported by improvements in infrastructure but is dependent on enhanced domestic and border security. Positive recent developments in Kenya are well described by improvement in the World Bank's *doing business* ranking (92nd, up +37 places from 2015 survey). The biggest steps forward were made on *starting a business* and *resolving insolvencies* components.

Some imbalances, but under control

Kenya still struggles with twin deficits, a classical challenge for a low-income fast-growing economy, as the capital stock rises from a low base. Simply put many things must be imported. Yet one should note that these deficits were reduced gradually decreasing and should further decrease.

Financing is not a key issue. Foreign exchange reserves cover about five months of imports. Foreign direct investment represents 65% of the current account deficit. Moreover, Kenya has secured a two-year USD 1.5bn IMF precautionary loan (the country does not intend to draw on this facility, but it can be tapped into in case of emergency). This loan is a buffer against shocks. It also means that public policies are closely monitored by the IMF.

Economic integration adds to positive growth dynamics but mind the politics

The East African Community (EAC) importance for Kenya is on the rise as regional integration deepens: Mombasa remains the largest regional port and Uganda and Tanzania already account for a combined 20% of Kenyan exports. Other economies in the region exhibit a similar positive momentum (+7.5% and +5.5% growth expected in Tanzania and in Uganda in 2017). Moreover, the Chinese strategy to develop new trade routes under *one road, one belt* plan has important implications for the region.

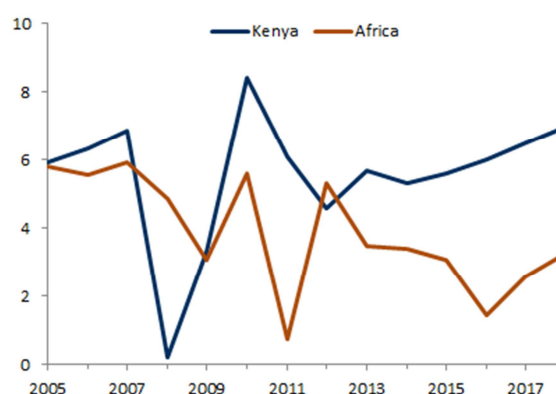
The main potential threats to these positive dynamics are political. Domestic and regional security remains volatile, as demonstrated by the Westgate mall terrorist attack in 2013, and tensions are heightened by periodic al-Shabab militancy. Policy slippages related to the Presidential election can also pose a challenge.

Key Economic Forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	5.6	6	6.5	7
Inflation (% , average)	6.6	6	5.5	5
Fiscal balance (% of GDP)	-8.3	-7.5	-6.5	-5
Public debt (% of GDP)	51.3	52	52.5	52
Current account (% of GDP)	-7	-6.5	-6	-5.5
External debt (% of GDP)	27.4	29	29	31

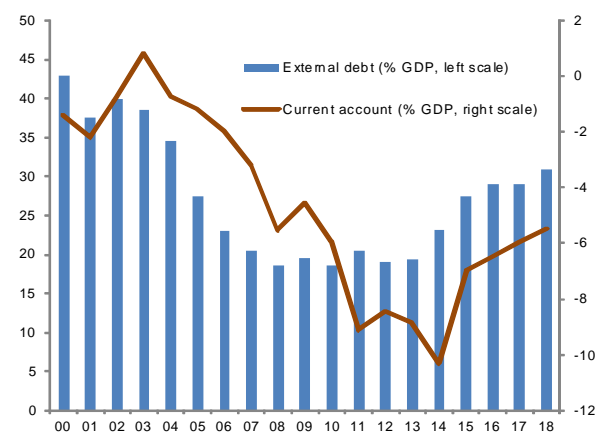
Sources: National Sources, IHS, Euler Hermes

GDP Growth (%)



Sources: National sources, IHS, Euler Hermes

Current Account Balance and External Debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

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