

Successful elections now offer scope for growth



General Information

GDP	USD37.229bn (World ranking 87, World Bank 2012)
Population	43.18 million (World ranking 31, World Bank 2012)
Form of state	Republic
Head of government	Uhuru Kenyatta
Next elections	2018, presidential and legislative



Strengths

- Large domestic market (population 43 million) and member of a regional trading bloc, East African Community, which is expanding and offering good business opportunities.
- Vibrant horticultural and tourism sectors, although the latter can be volatile subject to domestic political stability and regional security concerns.
- Regional energy sector has significant potential (including offshore gas fields), with direct (exploitable reserves within Kenya's territory) and indirect (inputs through Kenyan ports and exports from them) benefits.
- Strategic importance: regional economic hub; global campaign to limit terrorism.

Weaknesses

- Recent 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 low 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 in fiscal and current accounts.

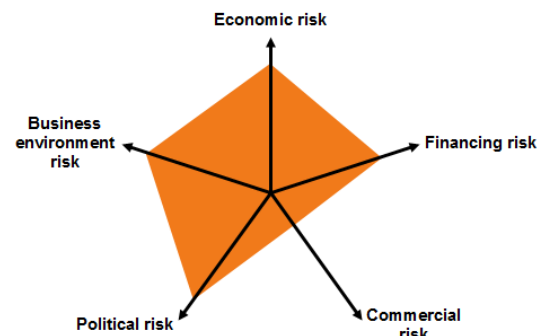
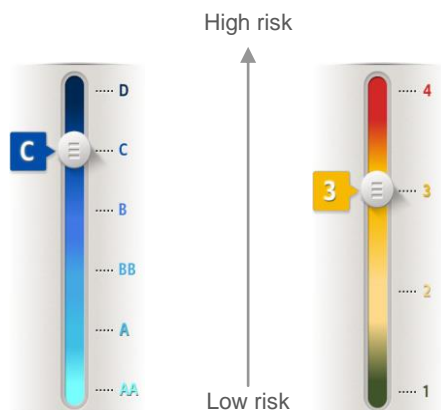
Country Rating

C3

Risk Dimensions

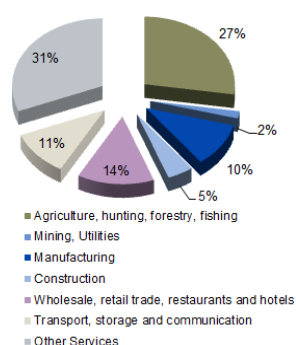
Country Grade

Country Risk Level



Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports	Rank	Imports		
LDCs in Africa	39%	1	18%	India
United Kingdom	7%	2	18%	China
Netherlands	6%	3	10%	Other Gulf
United States	5%	4	7%	Union of South Africa

By product

Exports	Rank	Imports		
Other Edible Agricultural Prod	32%	1	17%	Refined Petroleum Products
Non-Edible Agricultural Prod.	10%	2	5%	Crude Oil
Refined Petroleum Products	4%	3	5%	Cereals
Toiletries	3%	4	4%	Iron Steel
Preserved Fruits	3%	5	4%	Plastic Articles

Economic Forecast

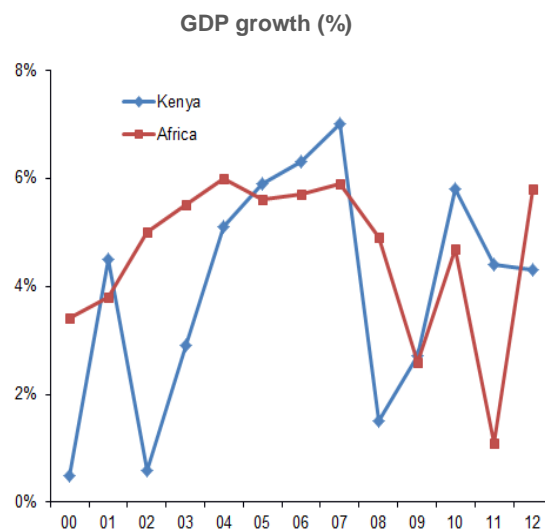
	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	2.7	5.8	4.4	4.3	4.5	5.0
Inflation (% end-year)	5.3	4.5	18.9	3.2	7.4	6.5
Fiscal balance (% of GDP)	-4.7	-5.9	-5.2	-4.8	-4.2	-3.8
Public debt (% of GDP)	47.5	49.9	48.5	n.a.	n.a.	n.a.
Current account (% of GDP)	-5.5	-7.4	-11.0	-10.7	-11.4	-10.6
External debt (% of GDP)	28.1	27.3	30.1	27.0	27.1	27.2

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Overview

Growth of GDP accelerated to +5.8% in 2010, partly reflecting recovery from the adverse impact on the economy of the end-2007 elections and the violence and poor security that followed. Annual GDP growth was above +4% in 2011 and 2012, compared with a long-term annual average +3.8%. Potential growth from 2011 has been restricted by a challenging external environment, including weakness in some key European markets. However, infrastructure projects have maintained buoyancy in the construction sector. In addition, Kenya (largest regional economy) benefits from increased integration within the East African Community, which provides an extended market for prospective businesses seeking an even wider marketplace.

GDP growth was +5.2% y/y in Q1 2013 (+5.1% in Q4 2012) but was mainly driven by the agriculture sector (+8.3%) and, in particular, by output in the tea and horticulture sub-sectors. Some of this rapid growth reflected climate-affected output in Q1 2012 and so rates of growth in agriculture may ease through the rest of 2013. Moreover, a strong KES may limit the overall export performance and weaken tourist inflows. Nevertheless, EH forecasts GDP growth of around +4.5% in 2013 and +5% in 2014. Indeed, economic growth could be more rapid, given a relatively smooth election in March 2013 and the near absence of violence and economic disruption that followed those polls (unlike in 2007-08).



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Kenya's external accounts are volatile, reflecting the economy's vulnerability to local (climatic and security) and global developments (the latter including commodity demand and internationally-determined commodity prices, which have an impact on both sides of the trade balance). In 2000-08, annual average current account deficits were -2.1% of GDP but by 2011 shortfalls had become double-digit. In the next few years, it is likely that countries in the East African Community (EAC) will grow in importance for Kenya as regional integration deepens. Mombassa remains the largest regional port and Uganda and Tanzania already account for a combined 21% of Kenyan exports. This year, the current account deficit is forecast at -11.4% of GDP. External debt levels (debt/GDP 27.1% and debt/export earnings 109.6% in 2013) require careful management, although foreign exchange reserves cover more than three months of imports.

The main political parties are not separated by deep-seated differences in their basic market-friendly approaches to governance. As such, the elections earlier this year are unlikely to introduce significant differences in policy direction.

However, well-established international agencies indicate that perceptions of corruption can act as a deterrent to business activity. In addition, infrastructural bottlenecks impede full business and growth potential. The latter are being addressed partly through project assistance from multilateral bodies but also through inward investments from countries including China.

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