

## Recent macroeconomic and financial developments

The Kenyan economy grew by 6.7% in 2021 after 0.3% contraction in 2020. Growth was driven by services on the supply side and by private consumption on the demand side, both benefiting from supportive policies and eased COVID-19 restrictions. Inflation climbed to 6.1% in 2021 from 5.3% in 2020, reflecting increased input costs. The fiscal deficit nudged down to 7.9% of GDP in 2021 from 8% in 2020 due to improved revenue, reversed tax cuts as the economy recovered, and rationalized spending. Public debt surged to 68% of GDP at end-June 2021 from 63% in 2020, driven by the primary deficit. Kenya is assessed as being at high risk of debt distress. The current account deficit widened to 5.2% of GDP in 2021 on the back of an increased trade deficit.

International reserves reached \$8.8 billion as at end-November 2021 against \$8.1 billion in 2020 (5.4 months of import cover), reflecting the SDR allocation of \$737.6 million, about half of which was used to finance the fiscal deficit. The exchange rate depreciated by 3.7% year on year in 2021. The banking sector is profitable, liquid, and well-capitalized; yields on government securities and the NSE-20 index, and market capitalization, increased. The number of people in extreme poverty declined to 16% in 2021 from 17% in 2020, and unemployment fell to 12.3% from 14.3% over the period, attributable to per capita income growth, social safety-net programs, and economic recovery.

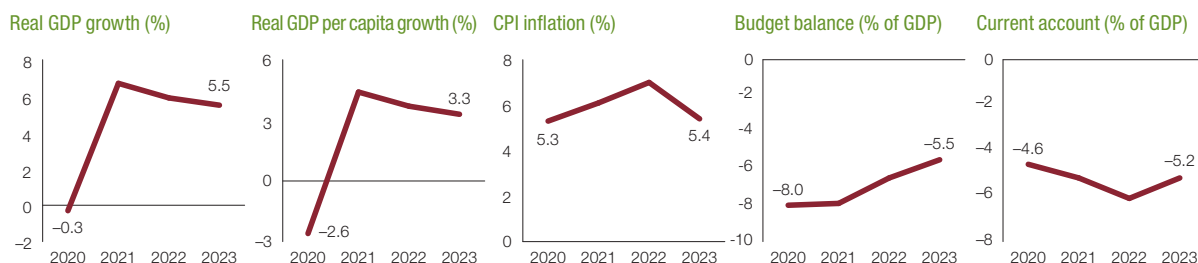
## Outlook and risks

Growth is projected to decelerate to 5.9% in 2022 and 5.7% in 2023, driven on the demand side by a decline in domestic and external demand caused by lower income and by an increase in food and fuel import costs and on the supply side by tepid economic activity across sectors due to cost-push factors. Inflation is projected to edge up to 7%, close to the upper end of the target

band (7.5%), caused by greater energy and food inflation. The fiscal deficit will narrow to 6.5% of GDP in 2022 and to 5.5% in 2023 with the resumption of the IMF-supported fiscal-consolidation and debt management program. The current account deficit is projected to widen further to 6.1% and 5.2% of GDP over the two years, attributable to higher fuel and food import bills. Downside risks could stem from the 2022 general election, a surge in COVID-19 infections (vaccine rollout was at 30% by mid-April 2020), limited access to external resources, and natural factors. Risk mitigation could include organizing election-education events, continuing growth-friendly structural reforms to build resilience to shocks, and addressing COVID-19 vaccine hesitance.

## Climate change issues and policy options

Kenya is 25 on the 2021 GCRI. Over 84% of its land is classified as arid and semi-arid and so exposed to extreme natural events—drought, locust invasion, and flood, which have displaced communities, disrupted social services delivery, and induced social tensions. An average drought results in a food deficit of 20–30%, slashes GDP growth by 3–5%, and affects the livelihoods of over 80% of the population. In line with its Vision 2030, Kenya has introduced policies and frameworks to tackle climate change. It updated its NDC to 32% in 2021 and put in place mitigation and adaptation measures to achieve the COP26 emission reduction targets, which are forecast to cost \$64.9 billion between 2021 and 2030. They include increasing the share of renewables in the electricity generation mix, increasing tree cover to at least 10% of land area, building a low carbon and efficient transportation system, and increasing the uptake of adaptation technology across all sectors. Kenya is exploring sources of climate finance such as carbon markets, the Green Climate Fund, and the Africa Climate Change Fund. It is on track to meeting the five climate action targets of SDG 13 by 2030.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to Kenya's fiscal year, which runs from July 1 to June 30.