KENYA's ECONOMY POSITION

Moody's has downgraded Kenya's long-term foreign-currency and local currency issuer ratings and senior unsecured debt ratings from B2 to B3 on rising liquidity risks. The Government wishes to make the following points:

Kenya's economy has remained resilient, growing at 4.8 percent in 2022 compared to a growth of 7.6 percent in 2021 supported by services sectors, despite an unprecedented two consecutive years of agriculture contraction. Kenya's growth prospects remain positive, supported by favourable weather conditions, and subsidized fertilizer, expected to boost agricultural production and improve food security; continued economic recovery across various sectors due to easing of economic impact of COVID-19 pandemic; and the implementation of the Government's Bottom-Up Economic Transformation Agenda (BETA). This view is corroborated by Ms. Kristalina Georgieva, the IMF Managing Director, who visited Kenya and noted the strong economic performance in the face of multiple external persistent shocks as well as domestic ones.

Moreover, inflation which peaked at 9.6 percent in October 2022, at the height of severe drought and commodity shocks in the global market, is down to 7.9 percent in April 2023, while the underlying inflation (excluding food and fuel) has remained around 4 percent throughout the turbulence. The easing of global commodity prices, especially oil and food, and easing of domestic food prices on account of favourable weather conditions, are supportive of Kenya's recovery. Consequently, inflation is expected to revert to its medium-term target band of 2.5-7.5 percent within the second quarter 2023.

In the global bond market, the expectations are for the interest rates to continue rising, particularly in the wake of the most recent U.S. employment data. It's expected that the bond holders are looking at mark to market losses. Likewise, in the domestic market, the Treasury-bonds and bills rates are driven by perception of risks. Kenya has come from a political cycle that seems to prefer short maturity papers and therefore the market needed to adjust the portfolios from the shorter end to medium and longer end. This is the time to accelerate this shift, now that we are seeing increased bids in the 6 months range. These are positive signals in the domestic market. Thus, temporarily, tighter market conditions are leading to faster fiscal consolidation. Ultimately Kenya does have depth in its local currency market that it can rely on.

On the upcoming 2024 Eurobond maturity, the Government has received over 300 proposals offering various liability management solutions, as it embarks on an effective liability management in the next fiscal year. The Government had advertised for an expression of interest for Lead Managers of Eurobond holding banks to devise an efficient path to resolve the Eurobond 2024. In the near term, there is planned pipeline of foreign currency loans from the IMF, World Bank and syndicated loans that will positively impact market liquidity. In addition, the IMF MD committed to increasing financing to Kenya by deploying long-term concessional financing through the new Resilience and Sustainability Facility (RSF). Noteworthy also is the December 2022 Joint IMF/World Bank Debt Sustainability Report for Kenya that stated that despite facing high risk of debt distress, Kenya has moderate debt carrying capacity and its portfolio of public debt is sustainable. It is on this basis that the New Administration is committed to manage public debt effectively and minimize any risks of default at all times. At the same time proposals are being discussed to adopt an debt anchor that will provide the relevant signals on the debt policy space at any one time.

Finally, the Bottom-up Economic Transformation Agenda BETA, adopted by the New Administration, is targeting activities and sectors that have strong impact and linkages in the economy –Agricultural; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; Digital Superhighway and Creative Industry is expected to lead to job creation, competitiveness, improved household welfare and increased Agriculture productivity. We are confident that it is the supply response to these interventions that will underpin the path to sustainable economic recovery with a strong impact on public finances and external balance.

NJUGUNA NDUNG'U, CBS

CABINET SECRETARY/

THE NATIONAL TREASURY & ECONOMIC PLANNING