

## Kenya

The Kenyan economy grew by 5.0% in 2010, *i.e.* almost twice the 2009 rate. The positive outlook for 2011 is mitigated by Kenya's vulnerability to climate hazards and the need to diversify the economy. Moreover, another political shock could roll back the recent economic and social gains.

The government's Economic Stimulus Programme played an important part in boosting infrastructure projects and creating credit for SMEs. The stronger performance of the Kenyan economy and the gradual recovery of the global economy in 2010 contributed to the rebound in trading activities at the Nairobi Stock Exchange (NSE).

Since the early 2000s, Kenya has been building new economic partnerships with Middle Eastern and Far Eastern countries, particularly with China.

The macroeconomic performance of the Kenyan economy improved significantly in 2010 compared with 2009. While the economy grew by 2.6% in 2009, it is estimated that the growth rate of gross domestic product (GDP) nearly doubled to reach 5.0% in 2010. The increase in growth can be attributed to the good rainfall during 2010 and higher prices for Kenyan exports on world markets. The abundance of agricultural output, coupled with increased competition in some key services, helped contain inflation in 2010. However, the Kenyan economy faces two challenges: diversification and the reduction of its dependence on the vagaries of nature.

The outlook for 2011 is promising and a combination of trends could contribute to ensure positive prospects in the short to medium term. The approval of the constitution, continued investment in infrastructure and government policies targeting development in the private sector should all enhance Kenya's business environment and reinforce a dynamic private sector. Second, deepening regional integration and the launch of the East African Community common market are creating a single trading and investment environment in which Kenyan firms to have access to a larger market. Last, prudent monetary and fiscal policy is expected to reduce inflation and keep interest rates low, creating a credible and stable macroeconomic environment. Given these prospects, the Kenyan economy is forecast to grow by 5.3% in 2011 and 5.5% in 2012.

This positive outlook may however be subject to two main challenges. First, Kenya will need to reduce its high reliance on agricultural outputs to limit its vulnerability to climate hazards by diversifying the economy. Second, Kenya may be vulnerable to another political shock as it faces 2012 elections. Contributing further to the uncertainty weighing on the political environment is the indictment of six high-level Kenyan officials – including the current finance minister and deputy prime minister – by the International Criminal Court for alleged crimes connected to the 2007 post-election violence.

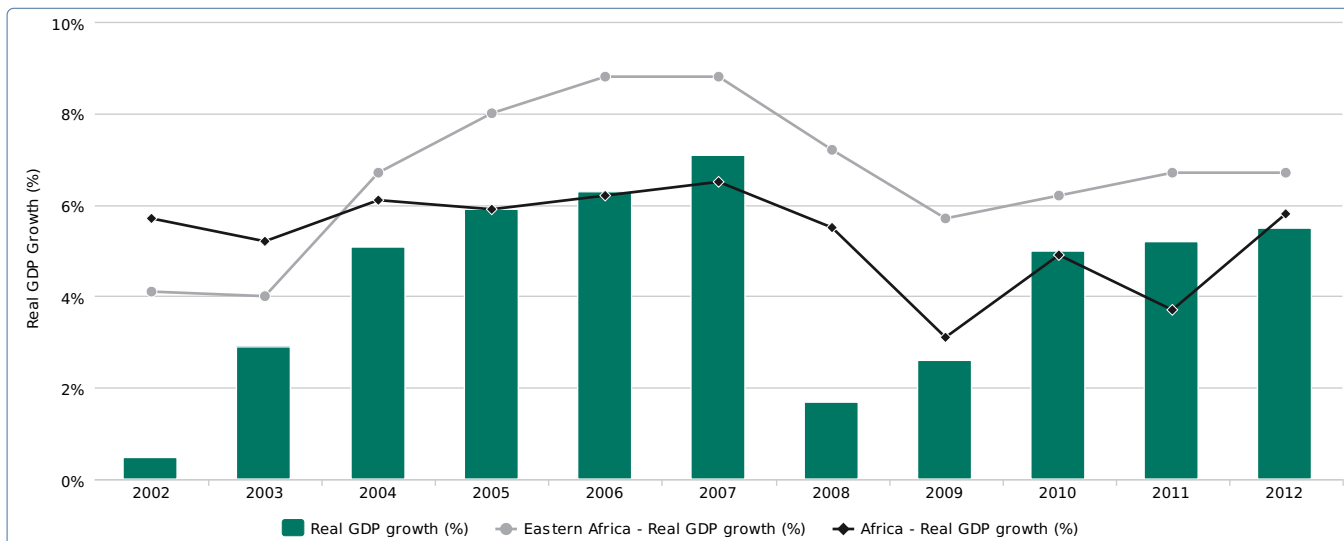
Table 1: Macroeconomic indicators

	2009	2010	2011	2012
<b>Real GDP growth</b>	2.6	5	5.3	5.5
<b>CPI inflation</b>	10.5	4.1	9.8	7.6
<b>Budget balance % GDP</b>	-5.4	-5.8	-6.8	-7.1
<b>Current account % GDP</b>	-5.3	-7.8	-8.5	-9.1

**Source:** National authorities' data; estimates and projections based on authors' calculations. Figures for budget balance refer to fiscal year July (n-1)/ June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

Figure 1: Real GDP growth (E)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404199>