TALKING NOTES FOR THE PRINCIPAL SECRETARY/THE NATIONAL TREASURY, DURING THE LAUNCH OF THE 26TH EDITION OF THE KENYA ECONOMIC UPDATE ON 8TH DECEMBER, 2022

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1. **Ladies and Gentlemen**, let me first start by thanking Mr. Keith E. Hansen, the World Bank Country Director for Kenya, Rwanda, Somalia and Uganda, for inviting me to be the Guest of Honor to this launch of the 26th Edition of the Kenya Economic Update report. In line with this year's Report, I will first summarise recent economic developments and growth outlook and then focus on "***policy options to support economic transformation and economic empowerment for inclusive growth***".

ECONOMIC PERFORMANCE

2. This Kenya Economic update report has been prepared against a backdrop of global economic slowdown reflecting the impact of the ongoing Russia-Ukraine conflict, effects of COVID-19 containment measures in China; higher-than-expected inflation worldwide triggered by higher global oil and food prices and the impact of the contractionary monetary policy in advanced economies that has created tighter financial conditions. As a result, we continue to face difficult policy trade-offs to secure economic recovery and navigate existing macroeconomic challenges and diminishing fiscal space.
3. Domestically, our economy has demonstrated remarkable resilience and recovery in 2021 due to proactive measures by Government to support households and businesses through the COVID-19 crisis and the diversified nature of the economy. Consequently, the economy grew by

7.5 percent in 2021 from a 0.3 percent contraction in 2020. The growth momentum continued in the first half of 2022, with the economy expanding by **6.0 percent,** supported by the ongoing recovery in the services and industry sectors despite subdued performance in the agriculture sector due to dry weather conditions.

4. Considering the adverse impact of the drought conditions, inflationary pressures, and other external pressures, the economy is projected to grow by 5.5 percent in 2022, recover in 2023 to 6.1 percent, and maintain that momentum over the medium-term. This growth will be supported by a broad-based private sector growth, including recoveries in agriculture while the public sector consolidates.

5. The growth outlook is affirmed by the July World Bank Kenya Economic Update report, which projects Real GDP growth to moderate **5.5 percent in 2022.** Additionally, recent surveys by the Monetary Policy Committee reveal a general optimism on economic growth prospects, and the recent IMF Mission to Kenya noted that economic recovery is underway and estimates economic growth consistent with our projections.

6. **Ladies and Gentlemen**, the coordination between monetary and fiscal policies continued to support macroeconomic stability with interest rates remaining low and stable**. Year-on-year overall inflation rate** was at **9.5 percent in November 2022**, a decline compared to the 9.6 percent recorded in October 2022 due to easing food prices arising from seasonal factors and declining of international food prices.

7. Monetary policy stance **remains tight to anchor inflation expectations** due to the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy. In this regard, the **Central Bank Base Rate** was raised from 8.25 percent to **8.75 percent in November, 2022.**

8. Growth in **private sector credit** has remained strong with the credit expanding by **13.3 percent in October 2022** from 8.1 percent in October 2022. All economic sectors registered positive credit growth rates reflecting improved demand as economic activities picked up.

9. **The external sector** has remained stable despite the tight global financial conditions attributed to strengthening US Dollar and uncertainties regarding the ongoing Russian-Ukraine conflict. Due to the strong dollar, the exchange rate to the Kenya shilling similar to world currencies has weakened but strengthened against other major international currencies. The current account deficit was generally stable at **5.4 percent of GDP in the 12 months to September 2022** supported by improved receipts from service exports and resilient remittances. The official foreign exchange reserves was at **4.4 months of import cover in September 2022** continues to provide adequate buffer against short term shocks in the foreign exchange market.

10. **The fiscal policy** continues to pursue **growth friendly fiscal consolidation** to preserve debt sustainability. This will be achieved through enhancing revenue collection and curtailing non-core expenditures while prioritizing high-impact social and investment expenditures. As such fiscal deficit is projected to decline from **5.8 percent of GDP in FY 2022/23** to **4.3 percent of GDP in FY 2023/24**.

B. POLICY PRIORITIES FOR INCLUSIVE GROWTH

11. **Ladies and Gentlemen**, the Government's development agenda is geared towards an economic turnaround and inclusive growth. Special focus will be placed on **increased employment, more equitable distribution of income, and social security while expanding the tax revenue base and increasing foreign exchange earnings**. The economic turnaround programme will seek to increase investments in at least five sectors envisaged to have the most significant impact on the economy as well as on household welfare. These include **Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.**

12. The Government is committed to improving agricultural production by addressing the adverse effects of the recurring droughts in the Country. **Food security and climate change** will anchor the response to the drought crisis, where adaptation, mitigation and resilience will become major drivers of the development agenda. Towards this end, the Government has established the **National Steering Committee on Drought Response** to lead private-sector efforts to mitigate the drought situation in the Country.

13. The Committee will work with the National and County governments to strengthen the national capacity for resilient recovery to protect development gains from recurrent drought. The Committee will also help mobilize resources to augment the Government's drought response initiative. As part of the Country's long-term food security plan, the Government has made subsidized fertilizer available to farmers across the country.

14. In furtherance of the agenda on inclusive growth and innovation in Micro, Small, and Medium Enterprises (MSMEs), the Government has rolled out the **Hustlers Fund.** The Hustlers Fund is part of the answer to **predatory lending** that historically has denied many households an opportunity to make their rightful contribution to nation-building. This program aims to lift those at the bottom of the pyramid through structured products in personnel finance that includes savings, credit, insurance and investment.

15. The Fund is expected to offer much-needed relief and a new lease of life to over **8 million Kenyans** who had been blacklisted by various credit rating agencies. Besides being accorded a second chance to access the credit needed to grow their enterprises, the Hustlers Fund also offers affordable credit by charging interest of 0.002% per day, which is 500 times cheaper than the cheapest current products, which range between 1% and 10% per day.

C. KENYA RELATIONSHIP WITH THE WORLD BANK

16. Let me take this opportunity to thank the World Bank and all stakeholders that were engaged during the consultation process and the successful launch of the recent Country Partnership Framework for Kenya for FY23-28. It is indeed an ambitious Framework, and well aligned to the priorities of the government administration. We look forward to its successful implementation.

17. The launch of this report today therefore comes at an opportune time to engage on priority areas of focus for strengthening of our collaboration.

CONCLUSION

18. Thank you, and once again, I am truly delighted to be part of this important event of the launch of the 26th Edition of the Kenya Economic Update Report.

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